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Public Utilities

FORTNIGHTLY

February 27, 1947

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PUBLISHERS

Public Utilities Fortnightly

Volume XXXIX *February 27, 1947* Number 5

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Pages with the Editors

A MOMENTOUS event in the history of Great Britain passed by the day after New Year's almost unnoticed. Yet, its significance was profound and its implications for the future far-reaching. It marked the first great experiment upon which British Socialism has embarked as a matter of considered Crown policy. The British *Daily Mail* gave this account of the symbolical doings on January 2nd:

> Sharp at noon on the day appointed by act of Parliament, over London's once-elegant Lansdowne House was broken a flag of royal blue, with the letters NCB in white. It was the flag of the National Coal Board.
>
> To Socialists it was the standard of The Revolution, a symbol and an oriflamme. The Day of Nationalization had come. The people had inherited the earth.
>
> The flag was royal blue, but to those who saw it through the rose-colored spectacles of Socialist ideology it was flaming red.
>
> No strains of "The Red Flag" were heard at the Ministry of Fuel and Power, however. Brief and simple was the ceremony carried out against the background of that same flag of royal blue with the large letters NCB.
>
> In a few well-chosen words the comrades of the Cabinet wished themselves a Happy New Era. Mr. Emanuel Shinwell, Minister of Fuel and Power, up and presented NCB Chairman Lord Hyndley with a book. It was a handsomely bound volume, but it could hardly have been a pleasant surprise, because he had read it all before.
>
> It was a copy of the Nationalization Act.
>
> But immensely symbolic was the formality, for in that moment Lord Hyndley took over, on behalf of the board, 1,500 collieries—former property of 800 concerns—more than 400 small mines, many coke ovens, manufactured fuel and briquetting plants, colliery power stations and waterworks, aerial ropeways, and railway sidings.
>
> And lordship over 700,000 men in the mining industry of Great Britain

THE *Daily Mail* went on to comment about the reaction of the British ministers. Minister Shinwell was beaming with the feeling of a life's dream come true. Prime Minister Attlee made a brisk little speech full of sporty English metaphors about a "fine team" going into "bat on a sticky wicket." Mr. Bevin was preoccupied, probably with other problems. Mr. Greenwood was bored. Mr. Morrison looked expectant, while Sir Stafford Cripps "had a pipe going."

Harris & Ewing

CLYDE S. BAILEY

SUBSEQUENT developments in the coal situation have not given the Labor ministers or the British people much cause to cheer. But the Labor government has gone on making steady progress on its series of nationalization bills. Banking, communications, town and country real estate planning, transport, electricity, and gas — all are earmarked for the same treatment, if not the same ceremony. To those of us—British or American—who see in this socialistic nationalization any threat to individual freedom, it must be remembered that the


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Attlee government was elected fairly and squarely by an honest poll. It did not seize power after a Reichstag fire or by way of a Polish ballot. It is therefore entitled to our respect as the considered government policy of a friendly sister democracy.

BUT a fair question arises whether even in a democracy as old as Britain's or our own (which is getting up in years now—as democracies go), the people who have voted for a socialistic government really understand what they have let themselves in for. This situation, especially with respect to British utility nationalization, was covered in our issue of February 13th by an article from the pen of a visiting British journalist.

ONE thing about British socialistic experiments, even before the Attlee government took over, was the apparent policy of treating government and even coöperative enterprises in about the same way as similar private enterprises were treated. Municipal utilities in Great Britain and coöperatives have been taxed on exactly the same basis as business-managed utilities. In this country, our own private enterprise government does not seem to be following such a policy of nondiscrimination, either as to taxation or regulation of publicly owned properties or coöperative operations.

IN this issue, an American business writer, ARNOLD HAINES, gives us a survey of the foreign tax practice generally with respect to the income of coöperatives. In a forthcoming issue MR. HAINES will make a similar survey of foreign tax practice with respect to government-owned utilities.

* * * *

RECENTLY, in Washington, D. C., there was held a meeting of the United States Conference of Mayors, at which AFL President William Green was one of the speakers. He said that American workers will continue to demand higher wages until prices come down. If Congress passes restrictive legislation against labor, he said, it will drive American labor into the camp of state Socialism, bringing about a government of the British Labor type. If Mr. Green has been reading the newspapers from London recently, he may have come across the latest British Economic White Paper. If so, he will find very little in this document to warrant his assumption that state Socialism in itself is a touchstone to the workers' prosperity.

THE picture is, on the whole, a gloomy yet courageous description of a country trying to get along under difficult conditions. He will find there a government determined to "increase production at all cost." He will find a Labor government report, emphasizing that such increased production must be achieved "without the inducement of higher wages or the incentive of more abundant consumption." If that is the direction in which Mr. Green's workers are likely to go, if congressional action displeases them, they might well take a second look at where they are heading. Could it be merely an accident of phraseology that the *Daily Mail* referred to the British government taking "lordship over 700,000 men in the mining industry of Great Britain"? "Lordship" may turn out to be a most appropriate word.

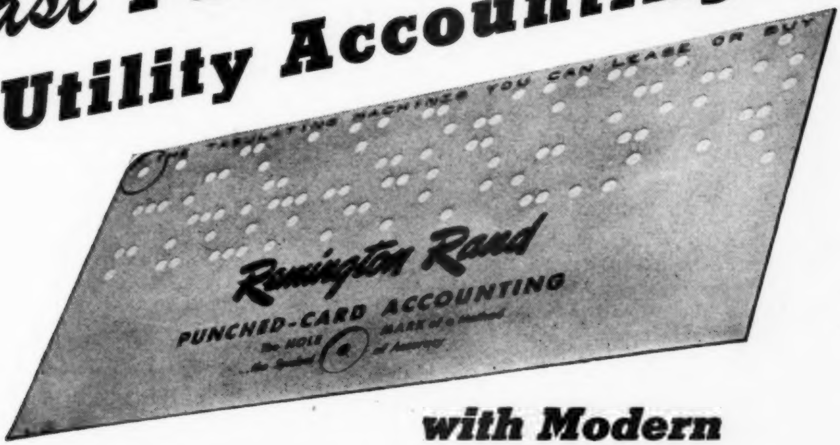
* * * *

IN this issue, we introduce a new contributor who is undoubtedly well known to many of our readers, because of his long, former association with the national organization of the state utility commissioners. He is CLYDE S. BAILEY, whose article, entitled "Shortages and the Obligation to Serve," is the leading feature. MR. BAILEY is a member of the District of Columbia bar and for some years was secretary and assistant solicitor of the National Association of Railroad and Utilities Commissioners, at the headquarters of that group in Washington, D. C. In 1940 MR. BAILEY became Washington representative and later executive vice president of the United States Independent Telephone Association.

THE next number of this magazine will be out March 13th.

The Editors

Fast Public Utility Accounting



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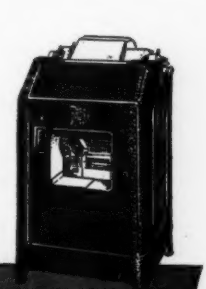

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In This Issue

In Feature Articles

In Washington and the Utilities

In Exchange Calls and Gossip

In Financial News

In What Others Think

In The March of Events

In The Latest Utility Rulings

PREPRINTS FROM PUBLIC UTILITIES REPORTS

Various regulatory rulings by courts and commissions reported in full text, pages 129–160, from 66 PUR(NS)

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Remarkable Remarks

"There never was in the world two opinions alike."
—Montaigne

Excerpt from advertisement by John Wanamaker.

"The coming year is a challenge to business leadership. The answer lies not in words, but in action."

J. R. D. Tata
Chairman of the board, Tata Sons, Ltd.

"Full nationalization of industry would inevitably result sooner or later in a totalitarian political state."

Alan C. Curtiss
Vice president, Scovill Manufacturing Company.

"The employee is a human being and an individual, and he will usually respond if he is treated like one."

Henry Ford II
President, Ford Motor Company.

"It seems to me we might pioneer very intelligently and hopefully in the direction of learning to live together in peace."

Editorial Statement
The Atlanta Constitution.

"Unless there is a willingness to give and take in argument there cannot be any such thing as negotiations or collective bargaining."

Harold W. Dodds
President, Princeton University.

"We shall not preserve our freedom by transferring to government responsibilities and decisions which we ought to be making as private citizens."

Glenn Gardiner
President, New Jersey Chamber of Commerce.

"I believe that both management and labor would do well to regulate their tactics and arrive at their decisions on the basis of 'What's right—rather than who's right.' "

James J. Caffrey
Chairman, Securities and Exchange Commission.

"We at the commission stand pledged to an honest administration, free of vindictiveness, and motivated by a constant attempt to make a sensible application of the policies of the law."

William K. Jackson
President, United States Chamber of Commerce.

"I submit that there is need for a rebirth of pride in the achievements of American business and faith in its great potentials for the future. The doubts sown by home-grown skeptics and foreign agents alike must be weeded out. There must be an end to apologetics and an upsurge of old-fashioned confidence."

Excerpt from "The Guaranty Survey," published by Guaranty Trust Company of New York.

"In a free economy, capital will flow into industry only if it has an opportunity to earn an adequate return."

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Managing director, Brand Names Foundation.

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EARL BUNTING
President, National Association of Manufacturers.

"If all of us will recognize our responsibilities, and if all will understand that the misfortune of any large segment of our economy may mean disaster for all, we can't fail."

ERIC JOHNSTON
President, Motion Picture Association.

"Millions of otherwise law-abiding citizens are openly flouting government controls until the degree of effective control which remains is hardly more than the shadow of a shadow."

WILLIAM M. JEFFERS
President, Union Pacific Railroad.

"John Q. Public is tired of getting kicked in the face by labor. It's true that you can't make a man work who doesn't want to work. But you can make it so a man who wants to work can work."

GEORGE THOMPSON
President, Trades Union Congress of Great Britain.

"One hundred years ago we had a revolution in this country. It developed because the people wanted self-government in politics. The present 'revolution' is aimed at applying the same principle in industry."

PATTERSON H. FRENCH
Assistant chief of administrative management, Bureau of the Budget.

"One great need that the universities can help to meet, is for greater understanding of government in the modern world—its purpose, its function, and its intimate relationship to the entire fabric of the nation's life."

HENRY HAZLITT
Writing in Newsweek.

"What we need at bottom is not 'antilabor legislation' but the repeal of antiemployer legislation. People are not born employers; they become employers by choice, and they can quit by choice if too much discouraged."

HERBERT H. ROGGE
Vice president, Westinghouse Electric Corporation.

"We cannot have national unity without unity on a local level, and the place to begin to achieve that unity is in the individual business, in the development of confidence and trust and teamwork between management and employee."

DELMER HUBBELL
Resident, New York, New York.

"The economy will not be restored to health by raising wages or by fanning into flame the latent distrust and class consciousness of people who depend for their economic education on leaders who themselves are lacking in the rudiments."

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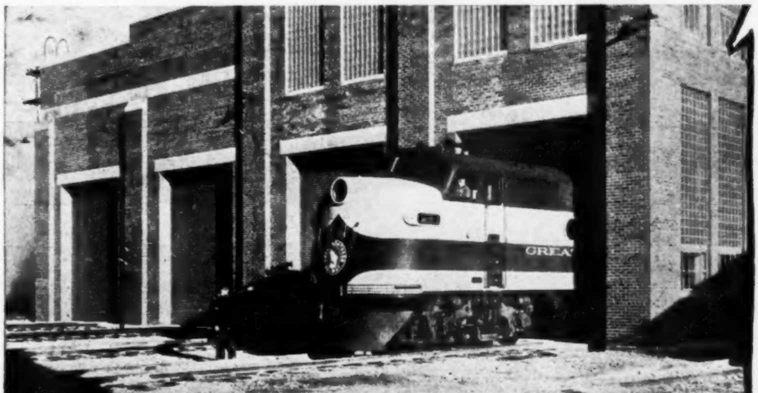
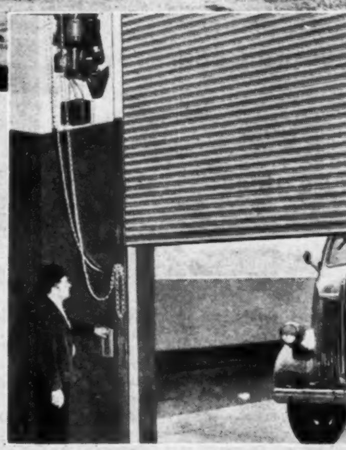


Kinnear Rolling Doors in one of the modern shops of the Great Northern Railway Company.



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Utilities Almanack

February

27	Th	¶ *American Water Works Association, Minnesota Section, will hold meeting, St. Paul, Minn., Mar. 13–15, 1947.*
28	F	¶ *American Gas Association, Residential Gas Section, Midwest Gas Sales Conference, will be held, Chicago, Ill., Mar. 17, 18, 1947.*

March

1	Sa	¶ *New England Gas Association annual meeting will be held, Boston, Mass., Mar. 20, 21, 1947.*
2	S	¶ *Kentucky Telephone Association will hold meeting, Louisville, Ky., Mar. 26, 1947.*
3	M	¶ *Canadian Electrical Association, Western Conference, meeting begins, Vancouver, B. C., 1947.*
4	Tu	¶ *Midwest Power Conference will hold meeting, Chicago, Ill., Mar. 31–Apr. 2, 1947.*
5	W	¶ *National Electrical Manufacturers Association meeting ends, Chicago, Ill., 1947.*
6	Th	¶ *Illinois Telephone Association will hold convention, Peoria, Ill., Apr. 3, 4, 1947.*
7	F	¶ *Southeastern Electric Exchange annual conference will be held, St. Petersburg, Fla., Apr. 3–5, 1947.*
8	Sa	¶ *American Gas Association–Edison Electric Institute, National Accounting Conference, will be held, Buffalo, N. Y., Apr. 7–9, 1947.*
9	S	¶ *Midwest Gas Association will hold annual meeting, Omaha, Neb., Apr. 7–9, 1947.*
10	M	¶ *Nebraska Telephone Association will hold meeting, Apr. 8, 9, 1947.*
11	Tu	¶ *Texas Telephone Association meeting begins, San Antonio, Tex., 1947.*
12	W	¶ *American Water Works Association, New York Section, will meet, Buffalo, N. Y., Apr. 10, 11, 1947.*

Courtesy, Pacific Gas and Electric Company

Rigging the Lines

Public Utilities
FORTNIGHTLY

VOL. XXXIX, No. 5 FEBRUARY 27, 1947

Shortages and the Obligation To Serve

Last fall the Georgia Public Service Commission ordered Southern Bell Telephone & Telegraph Company and 116 independent companies to appear and tell why telephone service should not be improved and expanded. An unusual meeting at Atlanta resulted on October 23, 1946, which brought out testimony as to acute shortages which still bedevil the telephone industry in its attempt to improve service. The picture painted at that proceeding was so striking that it is believed regulatory authorities and company officials elsewhere might profitably take note of it for comparative purposes.

BY CLYDE S. BAILEY*

SOME years ago, while arrangements were being made in one of our large cities for one of those very interesting annual conventions of the National Association of Railroad and Utilities Commissioners, a busy hotel executive inquired if the NARUC would need one or two of the larger ballrooms for the daily general sessions.

"Why would we need *two* places?" the NARUC official asked, puzzled.

"Well — for your exhibits and things, I suppose," said the hotel man hesitantly. "Isn't it some sort of a fair?"

The NARUC official smiled and assured the hotel man that one auditorium would be enough for the daily general sessions.

This little incident is often remembered, because in our established system of regulation there is nothing really comparable to an exhibition or "fair"; that is, a convocation at which

*For personal note, see "Pages with the Editors."

the latest models of regulatory thought can be examined with approval or disapproval or merely for information. Such a "fair" would not, of course, require space for physical exhibits. But it would require a certain amount of firsthand examination of actual regulatory material, testimony, and other evidence not provided in the otherwise highly informative annual meetings of the regulatory commissioners or of the various utility industry associations.

It is true, of course, that coöperative procedure for joint hearings has been devised, especially between the Federal commission and state commissions, on matters of concurrent or supplementary jurisdiction. But if a way could be found whereby the experience of one state commission, for example, could be made more intimately available for the edification of other state commissions, it might avoid the necessity and expense in time and money of duplicate procedures.

THE prevalence of economic trends affecting the operation of public utilities is generally about the same in one state as in another. In the telephone business it is pretty clear that when a supply shortage has developed in such a highly specialized piece of equipment as an exchange dial switchboard, it is not a shortage confined to Maine or California or some other state or group of states. It is likely to be a shortage national in scope and perhaps even international. Its effect may be more pronounced in some areas because of a local situation involving a plant condition or population movement. But on the whole it is pretty safe to assume that, if the manufacturers are finding it difficult to fill orders for switchboards in Illinois, let us say, they are not having an easy time filling orders for deliveries anywhere else.

Another reason it is important for state regulatory authorities to take "judicial notice"—as the lawyers say—of these widespread economic trends is the liberty of action which has been assured the state commissions by a series of U. S. Supreme Court decisions culminating in the celebrated Hope Natural Gas Case of 1944. The Supreme Court has, in effect, declared that the state commissions are just about the final arbiters of regulatory facts and policies within their respective state borders. That is, as far as Federal judicial interference is concerned. This places a grave responsibility and dignity upon the state commission proceeding in the first instance.

Last fall the Georgia Public Service Commission engaged in a regulatory investigation of telephone service complaints which was so impressive in its results and so thoroughly handled in detail that it warranted a wider audience. It produced testimony and facts which are just as pertinent outside of Georgia. It was, in short, a sort of regulatory "fair," to the extent that it explored the general problem of telephone service obligation under present postwar economic conditions.

Complaints against telephone service have not, of course, been confined to Georgia any more than shortages of material and man power. All five of the Georgia commissioners were present at the hearing on October 23rd, which was held in the chamber of the state house of representatives. Also present were members of the commission's engineering staff and representatives of the Florida commission.

In addition to witnesses for the Bell Company and the numerous independent companies, there were also witnesses representing various manufacturers who were called upon to testify as to supply conditions. Each telephone company served with the "show-cause order" (and there were 116 in all) was required to file a sworn statement containing information as to supplies and equipment on order and as to plans for improved service. As the name of each company was called in alphabetical order its president or other official took the witness stand and was asked to make an oral statement supplementing the sworn statement. Most of the companies were able to show they had service improvement plans and it is believed on the whole made a good impression on the commission. In certain instances, however, the commission may have been disappointed—perhaps justifiably.

It is significant that there were less than ten persons present who registered any oral complaint against the service of various companies. The commission engineers, however, had a number of written complaints that were referred to from time to time during the hearing as the names of individual companies were called. One complaining witness asked the commission to reduce subscriber rates to a level harmonizing with the poor grade of service being given.

The commissioners listened attentively first to the testimony of witnesses representing telephone manufacturers. These witnesses testified as to conditions confronting them and as to orders for equipment placed by Georgia companies. After that the author of this article testified at some length on general conditions in the independent branch of the telephone industry. The alphabetical response of the witnesses for the various companies then took place.

The result was a good X-ray of the telephone service problem. And, while a good many telephone men would rather spend their time licking the problem of telephone service demands than attending and testifying before regulatory commissions, yet this Georgia "fair," so to speak, served or could serve a useful purpose in ventilating the fundamentals of the problem for the information of others, including the public and the regulatory bodies elsewhere.

What was the gist of testimony presented to the Georgia commission? What did the evidence of the operating companies, the manufacturers, and others add up to? A fair summary might be as follows:

(1) The solution to the telephone service problem lies in furnishing our manufacturers with the necessary critical materials with which to make equipment and in furnishing both

"The *independent telephone industry includes some 6,000 companies which provide telephone service to approximately 12,000 of the 19,000 communities in the United States. In the USITA organization—in addition to operating companies—there are some 50 or 60 manufacturers and suppliers.*"

manufacturers and operating companies imperatively needed man power.

(2) There has been a phenomenal increase everywhere in the traffic load, and wartime limitations upon the manufacturer and the operating company have made it impossible to produce and install necessary equipment to cope with this increase.

(3) Although actual hostilities ended with the Japanese surrender on August 15, 1945, various obstacles in the form of strikes in key industries and the tremendous competitive demand for such critical material and man power as have been available have held up progress.

(4) Telephone equipment manufacturers have had to compete for raw and critical materials with such other essential industries as automobiles, refrigerators, washing machines, and so forth. In all these industries there is a vast public demand for stepped-up production.

(5) Service conditions in Georgia are not much different from those elsewhere. Independent operating companies require coöperative assistance of both regulatory authorities and manufacturers to "come back."

(6) Assistance will be required from regulatory authorities by way of rate increases to cope with the rising tide of operating expenses, principally in increased payroll.

From the standpoint of service rehabilitation the independents face a tougher problem, generally speaking, than the Bell system companies. They serve, on the average, in sparser territory. They do not have ready access to the financial, research, and other resources which characterize Bell operations. On the other hand, the independents give a type of locally developed service which the people in many communities prefer. In many cases it is doubtful whether a substitute could be found on any permanent basis.

The independent telephone industry includes some 6,000 companies which provide telephone service to approximately 12,000 of the 19,000 communities in the United States. In the USITA organization—in addition to operating companies—there are some 50 or 60 manufacturers and suppliers. The USITA has been the happy forum for bringing together these manufacturers for frank and intimate discussions with operating company officials, and for providing a basis for coöperative approach to the service problem.

What, then, has been holding up the parade? Testimony adduced at the Georgia hearing pointed the finger most accusingly at a number of raw materials. There is, for example, a scarcity of lead, without which telephone cable cannot be made. The demand for copper by builders who are building homes for returning veterans, by the automobile industry, the electrical industry, and the telephone industry is far, far in excess of mill capacity. The demand for copper alone in the month of July, 1946, I am told, was 120,000 tons compared with a total production of 65,000 tons.

Steel alloys necessary in electrical manufacture still are scarce, we are informed, because of the steel and coal strikes. About 40 different sizes and colors of cotton yarns are used by one manufacturer to turn out insulation for wire of various kinds. That commodity is in short supply. Plastics, lumber, wood pulp, and paper, all vital to telephone operations, simply are not in sight to meet telephone requirements.

The production of copper in 1944 was 1,300,379 tons. This fell off to 842,517 tons in 1945, a reduction of 457,862 tons. The production of steel

Telephone Shortages during the War

"INDEPENDENT *telephone companies have found no way to immunize themselves against shortages caused by the greatest unpleasantness of all time. While the war was in progress the War Production Board absolutely prohibited materials from being used for expansion or modernization. Telephone operating companies were permitted to obtain, and manufacturers to sell, only enough material to take care of current maintenance.*"

in 1944 was 89,641,600 tons; it fell off to 79,745,000 tons a year later, a reduction of 9,896,600 tons. The production of lead in 1944 was 416,861 tons; it fell off to 387,942 tons the following year. Much the same story is true about aluminum, platinum, and other critical materials necessary in the manufacture of telephone switchboards and other equipment. The stocks which the manufacturers had accumulated in former years reached a very low point because of the colossal military and naval needs of our country. It has been impossible to build them up to anything approaching normal.

INDEPENDENT telephone companies have found no way to immunize themselves against shortages caused by the greatest unpleasantness of all time. While the war was in progress the War Production Board absolutely prohibited materials from being used for expansion or modernization. Telephone operating companies were permitted to obtain, and manufacturers to sell, only enough material to take care of current maintenance. Hardly anything short of a devastating fire or the imperative needs of a military camp or a munitions factory could produce a relaxation of the government limitations on the use of critical materials.

The Georgia companies, as well as companies in all other states, recognized the necessity for this restrictive governmental policy. This is reflected in a tribute of the War Production Board to the coöperation of telephone companies all over the country during the war. In his final administrative letter, dated September 27, 1945, Leighton H. Peebles, director of the communications division of the Office of War Utilities (WPB), stated:

. . . The wire communications industry has rendered unqualified coöperation and support to the War Production Board. You have successfully met the challenge of production and the challenge of rendering essential service that was placed on you during the war years. I have the most heartfelt appreciation for your coöperation, and, jointly, with you, take pride in your record of achievement in contributing to this nation's war effort.

ONE of the most pertinent questions asked by a member of the Georgia commission during the October hearing related to the mandate of the Georgia regulatory statute which imposes on the telephone company an obligation to render adequate service. Quotation of the statute here is hardly necessary since it follows the general spirit of provisions to be found in virtually every state regulatory law. What the commissioners apparently wanted to know, however, was whether (admitting shortages of materials and man power) a telephone company is relieved to any extent of this statutory obligation.

Even a cursory examination of the decisions of the various courts and commissions indicates that the obligation of a utility to serve is not absolute or immutable. More to the point of this discussion have been numerous holdings to the effect that, where a utility company is either unable to serve or is prevented from rendering adequate service by war emergency conditions beyond its control, such service may be curtailed. A fairly typical and recent example was the decision of the Illinois commission in *Re* Commonwealth Edison Co. 63 PUR(NS) 129, permitting an electric company to curtail service during the recent coal strike. The electric utility in this case was unable to obtain sufficient coal fuel any place at any price, and ordinary prudence required that it institute a program of service retrenchment until a fuel supply was again assured. The commission agreed.

It would seem to follow that, if a utility were excused, temporarily at least, from its obligation to render full and adequate service during a period of fuel shortage, it should be similarly excused as a result of any other shortage of necessary equipment or supply resulting from circumstances beyond the utility's control. The New York Public Service Commission in *Re* New York Teleph. Co. (1941) 37 PUR(NS) 173, held the following company regulation to be a "reasonable provision":

Obligation of telephone company.
The company's obligation to furnish facilities or service is dependent upon its ability to secure and retain, and without unreasonable expense, suitable facilities and rights for the construction and maintenance of the necessary circuits and equipment.

PERHAPS one difficulty in determining the extent of a utility's obligation to serve is the fact that most statutes do not contain corresponding provisions giving the utility assurance that it will have regulatory protection for whatever steps it might take to fulfill its service obligations, even under extreme conditions. It may be assumed generally that whatever reasonably necessary steps a utility company may take to maintain its standards of service, the resulting increase in operating expenses would be allowed in fixing rates which would in turn allow a reasonable return to the company above operating expenses. But in practice this is very often putting the cart before the horse, especially for smaller companies.

Such a company—faced with the

necessity of making a sudden and extensive financial commitment for service improvements—has no real assurance that adequate rate adjustments will be allowed and, even if allowed, that subsequent revenues will in fact make the investment pay out.

In legal theory, of course, inadequate return or prospects of unprofitable operation are no excuse for refusing to render adequate service. Commissions have so held in the past. Notwithstanding such holdings, they are likely to remain "legal theory." Consider the case of a smaller company that cannot raise the money to go out and pay abnormally high prices for equipment to take care of an unusual service situation which may itself only be temporary.

Such a situation is not typical, but it has happened. Right now most of the small telephone companies are up against shortages which cannot be resolved promptly for love or money. Many are facing backlogs of accumulated orders for service which had to be deferred during the war years. They are facing a backlog of deferred maintenance and deferred plant improvements resulting from war restrictions. While the small telephone companies have had to let their plant run downhill during the war their demand has run uphill. To interpose suddenly a harsh interpretation of the service obligation in such a situation might well result in more of a burden than a company could sustain.

ANOTHER difference lies in the unfamiliarity of the public with these industrial shortages. There are shortages in other items, dealt in by nonpublic utility enterprises, with which the ordinary citizen seems to have more familiarity than he has with regard to shortages which confront telephone companies. Shirts and bobby pins and nylons and clothes of almost every description are in short supply. The production of automobiles is held up by the same difficulties that harass the progress of telephone companies and telephone manufacturers.

Many people think that the manufacture of a switchboard is like the manufacture of any other item in these days of mass production. But this is a false notion. You cannot turn out a switchboard like you do lead pencils, razor blades, or even automobiles. A switchboard is not an assembly line product. A switchboard is something that must have its basis, first, in an engineering study, on the ground, of the traffic and other conditions involved in the particular company's operations. It involves an appraisal not only of present conditions but a forecast of future conditions and growth, and an analysis of other factors. When an order once

¶ "MANY *companies have instituted training courses for veterans and even for high-school students. Switchboard wire men and testers in some places are being trained under the government-sponsored GI Bill of Rights. Still the shortage of help—male and female—is being acutely felt in the telephone industry in Georgia and in every other state from all accounts.*"

is entered, it must take its place in the scheduling of the manufacturer who is to make the equipment.

During the war, the manufacturers were engaged in turning out communications equipment needed for the armed forces. More than 85 per cent, probably, of the manufacturing capacity of every one of our independent manufacturers was being devoted to wartime production. After the shooting stopped there were some reconversion difficulties, even if these were not as serious as like difficulties that confronted manufacturers of other things. After the war the demand for critical materials in the competitive market prevented telephone manufacturers, no longer having the benefit of government priorities, from getting all the metal needed to take care of held orders for equipment.

The coal strike intensified the problem. Out in Chicago, where three of the principal independent switchboard manufacturers are located, factories actually had to close down for a while because Mayor Kelly, in the interest of protecting the public health and welfare, issued an edict declaring that the remaining coal on hand could be used only for the heating of homes. Even elevators in office buildings were not running. There was economic paralysis in Chicago, just as there was until recently in the unhappy city of Pittsburgh as an outgrowth of a strike of power company workers.

ONE question that might naturally be asked is, why didn't operating telephone companies make their engineering studies during the war so that they would be prepared at the end of the war? The answer is that many of them did. But it is also true that many of them did not, for the simple reason that their engineers were called away for service with the armed forces of their nation. The skeleton forces that remained at home had all they could do to keep existing lines in repair, a difficult assignment with the phenomenal growth in telephone usage produced by conditions of war.

As to the man-power shortage, one of the independent telephone companies not long ago advertised in the newspapers of the town in which it operates that it would pay $25 to any person who merely told the company how it could find a new employee. Many companies have instituted training courses for veterans and even for high-school students. Switchboard wire men and testers in some places are being trained under the government-sponsored GI Bill of Rights. Still the shortage of help—male and female—is being acutely felt in the telephone industry in Georgia and in every other state from all accounts.

Another complication which will take time to solve, according to testimony at the Georgia hearing, is the building shortage situation. Many buildings which house telephone central offices are not large enough to take care of additions in plant. In undertaking to add to existing exchange buildings and to construct new ones, companies encounter competition with housing and other construction. Then there was until recently the surviving restriction in the form of Civilian Production Administration regulations.

Will the telephone industry meet the present challenge of service improvement? It is the opinion of those best able to judge that it will.

SHORTAGES AND THE OBLIGATION TO SERVE

There was another period in the history of the country when a telephone service problem existed. It followed World War I. Those were trying times for telephone companies, though perhaps not so trying as the present times. Just as sure as the service difficulties of a quarter of a century ago were licked, so will the service troubles of today. We are all impatient for the things we have been denied in recent years. We want them right away. Telephone people in this regard are no different from other people. In days of yore if anyone missed a stagecoach he was content to wait two or three days for the next one. But now almost everyone lets out a squawk if he even misses a single section of a revolving door.

We can understand the disposition of people who make a squawk. It is the good old American way of allowing feelings to become known, a characteristic which has helped make Georgia and our country the great state and the great nation they are today.

It would appear that, if the regulatory authorities insist that telephone companies improve service standards much sooner than the industry is doing the job, if they are disposed to issue orders that such improvements be made forthwith, it will be necessary as sort of a regulatory corrollary that the commissions themselves do two things: (1) Find by some magic process the necessary critical materials to enable the manufacturers to turn out the needed equipment; (2) find by some other magic process the necessary man power for the manufacturers to fabricate the equipment and for the companies to put it to work.

That suggestion is made with all due respect, simply in order to stress the complexity of the telephone industry's service problems today.

The Obligation of Free Economy

"The people of this country have reawakened to the realization that we have the world's highest standard of living, not by mere chance, but because we have built upon the foundation of free enterprise. Recent developments indicate that we are returning to the original concept of a free nation, a land in which man may rise as high as his will and his skill will permit.

"Now that we are regaining this freedom, the mantle of responsibility for providing high employment and maintaining and expanding the standards of living will again rest upon the shoulders of private industry. If free enterprise is to flourish, industry must succeed in fulfilling these obligations. And a large measure of its success will depend on its ability to distribute the products of the factory, the forest, and the farm, economically, efficiently, and intelligently, so that more people may enjoy more of the good things of life."

—Harvey S. Firestone, Jr.,
President, The Firestone Tire & Rubber Company.

Utility Labor Bills In State Capitals

A brief look at what the states are doing to keep the utility wheels turning in the face of labor unrest.

By JOHN J. HASSETT*

A RETIRING state governor stood on the rostrum of his state capitol last month and reviewed the record of his administration. Reciting the various accomplishments of his term, he pointed with particular pride to the passage of a certain act as the high spot of his tenure in office. This act, he said, "saved our citizens from the violation and destruction visited upon neighboring cities, where conditions at times approximated the lawlessness and hardships of the Middle Ages." He wasn't referring to an act outlawing the atomic bomb, or otherwise sparing the citizenry any of the horrors of war. He was talking about an act outlawing strikes in public utilities.

That governor was Walter E. Edge, making his farewell address before the New Jersey state legislature. In 1946, his state grafted a new utility labor law onto its state code. New Jersey led the way in declaring it to be public policy that utility services are at all times essential to the public welfare. Virginia did the same thing by gubernatorial edict. This year, 44 state legislatures are meeting, and many another governor has stood on the rostrum in his own state capitol and asked for similar legislation to protect the public from stoppages in vital utility services. That concept of the "essentiality" of utility service has spread across the states. It might be worth while, then, to take a brief look at the pattern set last year by New Jersey and Virginia, and to survey some of the early proposals for new utility laws now being debated in state legislatures.

LET'S look first at the forerunner of all state utility measures — that New Jersey law of 1946. It provides for seizure and operation of utilities by the state in the event of a strike. It calls for a 60-day cooling-off period before any changes in union-company contract

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relations can be made, and it requires that all labor contracts remain in effect no less than one year. If unions and management cannot get together on terms during the cooling off-period, a state mediation board assumes jurisdiction and names fact-finding panels. These panels have fifteen additional days to effect a settlement, and, if a strike or lockout still threatens, the governor can seize and operate the plant in dispute.

That's the gist of the measure as written. Note the absence of any requirement of compulsory arbitration. In operation over the past eleven months, the law has been shown to have one major fault. That is the lack of penalty for refusing to work after the state has seized a struck plant. On Christmas eve, workers in two large New Jersey Public Service gas plants walked off their jobs despite two facts: (1) The unions had accepted arbitration, and (2) the plants were in state hands. Governor Edge promptly declared the walkout to be a flagrant violation of the law, but he was powerless to get workers back into the plants until agreement was reached among state, company, and union officials on a long list of union grievances.

A few days later, in his farewell speech, Governor Edge asked for "teeth" in the antistrike law to freeze workers at their posts. His successor, Governor Alfred E. Driscoll, who has taken over the helm, already has requested sanctions against those who strike while legal proceedings are pending, and those who strike against the state. Governor Driscoll did not ask for criminal penalties against strikers, but only "sanctions," presumably fines, discharge, or loss of union privileges. He favors authorizing the labor tribunal to set terms of continued employment while the utility is under state control. Stated succinctly, Driscoll's aim is to protect the public interest without invading the freedom of contract or imposing involuntary servitude. A bill covering his recommendations has been introduced in the legislature, and is currently progressing through the legislative mill. Incidentally, many state executives have expressed interest in the New Jersey labor law, and they are reported to be in close touch with Governor Driscoll.

The history of utility labor law in Virginia is quite a bit different, but has proved to be even more effective in keeping plants in operation despite serious labor difficulties. The firm position taken by Virginia's Governor Tuck last spring in the face of a statewide power strike threat was at first only an improvisation. Negotiations between Virginia Electric & Power Company and the International Brotherhood of Electrical Workers (AFL) had reached a stalemate when the governor decided that an interruption to electric service just must not happen. He used a combination of laws, at least one of which had been on the books since Colonial days, to keep the "juice" flowing through power lines. Governor Tuck held that possible failure of the company to furnish "reasonably adequate service" would be a violation of law. He therefore declared an emergency, which gave him the right to seize the threatened plants. Next, using a hoary old statute that could be traced back to the time of Governor Patrick Henry, he drafted into the state militia all company workers

Felony to Interrupt Electric Service

"Out in highly industrialized Michigan, the state legislature is looking over a bill by Representative Lewis G. Christman of Ann Arbor, which would make it a felony to interrupt electric power service to the public. A similiar bill, providing for fines ranging from $500 to $5,000 for violations, was defeated in 1945."

essential to operate the equipment, and required them to report for active duty at their jobs in the power plants. Refusal to obey would have made the workers liable to punishment by court-martial.

This maneuver successfully brought the dispute to an end, but there was still need for a modern statute covering future labor strife. Governor Tuck introduced a new concept of handling utility strikes by submitting to a special session of the Virginia general assembly the "toughest" antistrike bill yet devised.

Working on the theory that state seizure of utility properties should be discouraged rather than promoted, the bill makes operation of the utility under seizure so onerous to both sides that every effort to reach a compromise short of a strike will probably be made. That bill passed the assembly by an astonishing majority of both houses, and is now the law of the state.

Here's what the new Virginia law provides: The governor must be notified at least five weeks in advance of any proposed strike or lockout. Service interruptions during that period, of course, would be violations of law. Within those five weeks, the governor will decide two things: (1) whether necessity requires the state to take over the properties to protect the public through continued operation; and (2) whether any utility employees affected would be unwilling to work for the state and, if so, to train or arrange for their replacement. Workers refusing to accept state employment would not lose their status as private company employees, but they would lose their pay, unemployment compensation, and any right to picket or otherwise interfere with those employees remaining on the job, while the state held the properties. The real "joker" in the law, however, the thing that would give both unions and company the incentive to

agree on any reasonable terms rather than submit to state control, is this provision: During state operation, labor unions will be deprived of their membership dues, and the utility company will be charged 15 per cent of net revenues as a state "service charge." The effect of the new law is likely to be felt at once, for the same power company and its employees are negotiating their 1947 contract as this is written. Negotiators are conferring with this Damocletian sword of law hanging just above their heads, its sharp blade glinting menacingly. It simply cannot be ignored.

Since both Virginia and New Jersey have now acted to deprive utility unions of the actual right to order strikes, it is significant that both states are seeking methods to treat essential workers fairly and justly. New and enlarged facilities are being sought for hearing of grievances and otherwise affording these unions redress short of strikes. Both Governor Tuck and former Governor Edge favor placing utility labor problems on the doorstep of the state commissions which fix utility rates. So far, however, commission opposition to this proposal has kept the issue out of legislative bill hoppers. Governor Driscoll seems to lean toward strengthening state mediation boards to supervise utility labor relations.

To its antiutility strike law, Virginia has also added an anticlosed shop measure, guaranteeing the "right to work" without union affiliation to every worker in intrastate industry. There is some doubt about the legality of the "right-to-work" law in interstate businesses. Governor Tuck himself has admitted it may not be constitutional when applied to industries operating in interstate commerce. For this reason, the Vepco contract negotiations mentioned above are being watched closely, since some of the utility's power lines go into North Carolina and West Virginia.

OUT in highly industrialized Michigan, the state legislature is looking over a bill by Representative Lewis G. Christman of Ann Arbor, which would make it a felony to interrupt electric power service to the public. A similar bill, providing for fines ranging from $500 to $5,000 for violations, was defeated in 1945. This year's measure has a better chance, and may be broadened to include other essential utility services. Other labor measures filed in the Michigan House of Representatives would require all unions to file information on membership, dues, assessments, and financial condition, make them incorporate and become civilly liable for damages resulting from strikes or labor disputes. Still another measure would "restore democracy in strike votes" by calling for a secret strike ballot supervised by the state labor mediation board. No strike would be legal unless a majority of the employees voted to stop work.

If it is true that a burned child dreads the fire, then more than likely the grownups will stay away from the flame the second time, too. After last year's utility fiasco in Pittsburgh, where a catastrophic 27-day strike crippled the nation's steel production, affected 100,000 industrial workers, and caused an estimated loss in wages, sales, etc., of perhaps $300,000,000, there could well be expected a demand for stringent legislation to prevent major utility strikes from happening

> *". . . the new Virginia law provides: The governor must be notified at least five weeks in advance of any proposed strike or lockout. Service interruptions during that period, of course, would be violations of law. Within those five weeks, the governor will decide two things: (1) whether necessity requires the state to take over the properties to protect the public through continued operation; and (2) whether any utility employees affected would be unwilling to work for the state and, if so, to train or arrange for their replacement."*

again in the state. Sure enough, a most drastic utility strike bill, the only one calling for unqualified compulsory arbitration, was introduced in the Pennsylvania legislature on January 22nd of this year. It was filed by Representative Hiram G. Andrews, Cambria Democrat, the minority floor leader.

This bill requires that in all contracts between unions and utilities there must be a binding commitment by both sides to accept arbitration by the state department of labor and industry in all disputes which cannot be amicably settled. If a union violates the provisions of the bill, it would lose its right to bargain collectively for its members. If a utility ignores the bill's requirements, it forfeits its certificate of public convenience. In other words, breaking this labor law would mean going out of business. So far, majority opinion in the Pennsylvania legislature has not crystallized toward this or any other labor bill. It does seem, though, that a measure less vindictive would win more support in a conservative assembly.

A SLIGHTLY limited form of compulsory arbitration is provided in a bill now before the Missouri legislature. Last month Governor Donnelly asked for curbs on strikes in essential industries "which affect the lives, health, or safety of the general public, or challenge the sovereignty of state government." He received in answer a somewhat imperfect bill which gives him authority to seize and operate strike-bound utility properties, provides stiff penalties for failure to arbitrate disputes, and eliminates the closed shop. The bill was introduced by State Senator Charles L. Madison, Kansas City Republican.

Under the terms of the Madison Bill, seizure of "essential" property and plants could only be done after a strike or lockout lasted forty-eight hours. State operation would continue under the same conditions prevailing at the beginning of the dispute. Compulsory arbitration could be requested by the disputants involved, by city and county officials, or by petition of twenty-five citizens, but the *arbitration would be limited to jurisdictional controversies and those involving construction of union contracts.* If the arbitration board's findings are unsatisfactory, either party can give notice of a strike or lockout to take effect after a "cool-

ing-off period" of sixty days. If both parties agree to an arbitration board's findings, any subsequent violation would be an unfair labor practice, and the offender would be liable to restraint by injunction. The usual "tightening-up" provisions regarding liability for damages and definitions of union responsibility also are included in Madison's Bill. Considerable rewriting of the measure is in prospect before its final venture on the floors of the Missouri assembly.

In Minnesota, a piece of legislation aimed at strikes of public employees is in the works at the state house of representatives. Sponsored by Representative Joseph Prifrel, house minority leader, it places all public workers under jurisdiction of the state labor conciliator's office, and requires that any dispute must be submitted to that office if either side asks for it. Negotiators are then bound to remain in session at the conciliator's discretion until an agreement is reached. Specially difficult problems can be referred to the governor for the appointment of a fact-finding board. This bill, if passed, would affect workers in municipally owned utilities, but the legislators evidently feel there is no need to extend its provisions to cover workers in business-managed utilities. Presumably such workers would come under its jurisdiction when and if the state seized the properties of a private company. Minnesota assemblymen are also working on an amendment to the state Constitution which would ban the closed shop throughout the state.

THIS spot check of state bills has been necessarily sketchy, but it is enough to indicate a definite trend toward local handling of serious labor disputes. It is sufficient to show that the men in state capitals recognize the inherent danger behind every utility labor argument. They seem anxious to do something about the causes of labor unrest where they affect so many thousands of people so vitally. In many instances, state leaders have preferred to investigate before they legislate, and have examined state labor laws.

In some states, Massachusetts for one example, no labor bills are to be taken up in the legislature until a tripartite labor-management-public panel has finished an analysis of the state labor code and its shortcomings. In Massachusetts, as in many other states, utility management and utility union men are sitting on these survey panels, and thereby have an actual voice in shaping state labor reforms. Their recommendations, if reasonable and just, probably will find their way into law, and should provide the most direct and practical solution to a difficult problem. Another remedial source being thoroughly explored is the overhauling of state mediation facilities.

In any event, it is, perhaps, not too foolhardy to forecast or envision other governors on other state capitol rostrums sending forth messages to future assemblies of state legislators, pointing with pride to strong new laws guaranteeing to all the citizens reasonable protection from the economic disaster of a utility strike. It may be equally prudent to conclude that, bolstered by effective state machinery designed to keep utility wheels turning even though unions and management are at odds, the chances of voluntary agreement through genuine bargaining in good faith will be greatly improved in 1947.

Propaganda for the Gander

The annual reports to Congress and the appearance before congressional committees by government officials are viewed in the light of possible utilization for lobbying and propaganda purposes.

By LANDON GATES*

SHORTLY after the 80th Congress convened the Clerk of the U. S. Senate released a list of those who had registered as lobbyists under the new LaFollette-Monroney Act. There were over 300 of them, including about a half-dozen who represented various forms of public utility enterprises.

But not a single government official appeared on this list. True, there were a number of *former* government officials, including six ex-Congressmen (one of whom, incidentally, registered as a lobbyist for Rural Electrification Administration co-ops and another for a Pacific coast utility company). But Federal officials *now* on the public payroll did not register, for the very good reason that the registration act does not require them to do so. In short, the act specifically exempts public officials making reports or appearing before Congress in the course of their duties. And yet, one may well raise the question whether annual reports and appearances before congressional committees do not offer a superb opportunity for both lobbying and propaganda activity.

SHORTLY before the recent election, for example, Secretary of Interior Krug complained, in a speech on the West coast, that representatives of private interests had appeared before a congressional appropriations committee and had been partially successful in cutting out or cutting down funds which were needed by his department. And yet, if one would go back to the record of hearings before these congressional appropriations committees or subcommittees, it would become immediately apparent that the testimony by public officials advocating greater appropriations exceeded by far in volume any contrary or offsetting testimony by representatives of private interests.

Congress in its wisdom in passing the LaFollette-Monroney Act evidently intended to leave this exemption in

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favor of public officials. Yet one would be hard put to differentiate in principle between lobbying activities by public and private interests alike. When the lobbyist for the REA co-ops, for example (who properly registered under the act), appeared before a subcommittee of the House Interstate and Foreign Commerce Committee, at the last session of Congress, he advanced about the same arguments in support of the REA program as REA Administrator Wickard. If the REA co-op association chief was admittedly lobbying—then what was Mr. Wickard doing, at the same time, in the same place, and using about the same arguments?

Of course, virtually every act of Congress, setting up agencies such as REA or the Tennessee Valley Authority or the Bonneville Power Administration, contains a clause somewhere in that statute requiring the principal official to report to Congress. The period specified is usually an annual report. This is no doubt a proper and desirable requirement. But it also enables the agency chief to lobby if he wants to, pressing a particular point of view through the medium of his annual report. One might call it "lobbying by act of Congress."

CERTAINLY if these agencies did not report to Congress, periodically, their failure to do so might well be criticized. On the other hand, even a casual examination of some annual reports indicates that agency heads have followed the understandable and human tendency to put their best side out and use their annual report for specific pleading. For example, the report of the Secretary of Interior a year ago (at that time Harold L. Ickes) was originally sent down to Congress in loose leaf form and later bound in a most impressing format comparable in many ways with a best seller, and titled "Victory Edition." Needless to say, it was widely circulated among other than members of the Congress—and probably with considerable effect.

Just how the annual report, admittedly necessary, could be stripped of its lobbying or propaganda activities is a serious policy question which Congress may have to grapple with if it wants to follow through reform policy commenced in the form of the lobby registration act. Perhaps the answer might lie in applying the same rules or standards of truth and consequences to annual reports of a government agency, as the Securities and Exchange Commission requires of prospectuses, issued by a corporation to prospective investors. After all a government agency's annual report is, in a sense, a prospectus. It is not only an account of stewardship for the year preceding, but generally outlines reasons why Congress should invest further the tax money of the nation in carrying on the work and program of the particular agency. Perhaps, Congress should be just as careful in investing the taxpayer's money as the SEC is in protecting the general investing public from unfair, untrue, or one-sided arguments by corporations offering securities to be traded in interstate commerce.

ASIDE from the lobbying activities of government officials, how about their general propaganda activities? When former Secretary of Interior Ickes, two years ago, referred to former TVA Chairman Lilienthal as a busy and effective propagandist, Washing-

ton observers were inclined to regard it as one expert paying a compliment to another. Certainly few propagandists, in or out of the government, have ever been as effective—in terms of obtaining desired funds or power for their agencies—as Mr. Ickes. With the executive branch of the Federal government spending nearly $75,000,000 for educational, informational, promotional, and publicity activities during the past year (1946), can this be called an outlay for propaganda? Or is it propaganda only when private persons or corporations, particularly those with whom you disagree, engage in selling an idea to the public?

In early 1928, the U. S. Senate directed the Federal Trade Commission to investigate privately owned electric and gas utilities for the purpose of advising Congress on desirable legislation for the avoidance or correction of abuses or conduct believed inimical to the public interest. Although all phases of public utility activity were explored, early emphasis was laid on the efforts of the two types of public service companies to influence public opinion.

WHILE the summary report of the commission on this phase of its investigation was not published until 1934, many of its more sensational findings were released to the daily press as early as 1929 and brought forth such headlines as "Utilities Doctor Schoolbooks" or "Utilities Subsidize Teachers." The language of the summary report was, however, more subdued than that of the press releases.

In summation of its findings on efforts of these utilities to influence public opinion, the commission said, in part:

> The record of this investigation establishes conclusively that the electric and gas utilities, since about 1919, have carried on an aggressive, country-wide propaganda campaign. In it they have made use not only of their own agencies, but have enlisted outside organizations in active, and often secret, aid. In it they have literally employed all forms of publicity except "sky writing" . . .*

More specifically, the report stated:

> Acting on the theory that the two greatest public opinion forming agencies of the present and future generations are the press and the schools, the utilities, in planning their publicity and propaganda activities, gave most consideration to contacting and exploiting these two agencies. Officials and state directors were selected for their experience, acquaintance, and ability to make contact with newspaper men and school men. . . .
>
> The influence of school men was obtained in numerous ways. Some were invited to speak at utility meetings, others were engaged for vacation jobs, often at small remuneration. Others were invited to sit in on committees with utility men to plan courses for utility studies. Others were paid to make studies or to write articles. Direct money payments, some quite large, were made to many educational institutions, including several of the leading universities. Surveys were made of textbooks in use

* It was former NELA Publicity Director George Oxley who frankly told the commission that his organization had used all forms of publicity "except 'sky writing.'"

¶ "THE *Public Works Administration, formed in 1933, was created to increase employment through the financing of public works, to which it was authorized to lend 55 per cent and grant 45 per cent of their cost. But nothing in the act creating it would appear to authorize the active promotion of public works, just so the taxpayers' money could be lent and given to them."*

and pressure brought to bear on textbook publishers to eliminate matter deemed unfair or prejudicial by the utilities.

It is interesting to note that the commission was not directed by the Senate to investigate similar activities of publicly owned utilities or those of groups advocating public ownership of electric and gas systems.

Because of the unfavorable publicity resulting from use by the daily press of the commission's releases, electric and gas utilities immediately abandoned all efforts to influence public opinion. The National Electric Light Association, which had borne the brunt of the commission's attack, was disbanded and replaced by Edison Electric Institute, purely a fact-finding agency now registered with the Securities and Exchange Commission under the Holding Company Act. Although American Gas Association continued without change in form, its press releases were carefully restricted to statistical information only.

But this does not mean that all efforts to influence public opinion in the United States in matters pertaining to electric and gas utility services ceased. Rather, while private enterprise in these fields of public service was prevented by the force of public opinion from defending itself from political attack, propaganda for public ownership of these services was vastly stimulated. As the Brookings Institution said in its report of June, 1937, to the Senate committee investigating executive agencies:

Notwithstanding the fact that the employment of "publicity experts" is forbidden by the act of October 22, 1913, unless funds "are specifically appropriated for that purpose," publicity agents are nevertheless appointed under other designations, and one of the results has been an increasing flood of press releases . . .

Even before we entered World War II, their number was estimated at around 30,000 and many of them were engaged in spreading the gospel of public ownership of electric and gas utilities.

Others than "publicity experts" have been engaged in the same pursuit. Although the Federal Power Commission, under the Federal Water Power Act of 1920, is authorized to give preference to applications by states and municipalities for permits and licenses to build and operate works on navigable waters, nothing in the act would appear to authorize the promotion by it of public ownership of electric and gas supply systems.

Yet, by word and deed, its commissioners and staff have lent encouragement in numerous ways to the establishment of public power projects, and public acquisition and operation of local distribution systems. Indicative of this type of effort to influence public opinion is the trip of the then FPC chairman at commission expense to Boise, Idaho, in 1945 to deliver his "personal" plea for the establishment of a Columbia Valley Authority.

The Public Works Administration, formed in 1933, was created to increase employment through the financing of public works, to which it was authorized to lend 55 per cent and grant 45 per cent of their cost. But nothing in the act creating it would appear to authorize the active promotion of public works, just so the taxpayers' money could be lent and given to them. Yet, during its early years, the Public Works

Propaganda in Schools, Colleges, and Universities

"It is interesting to learn that REA carried on its propaganda activities in our schools, colleges, and universities only 'by invitation'—that it didn't just walk in and force propaganda down the throats of protesting educators. We find that even the publishers of textbooks 'invited' REA to see that rural electrification with the funds of the taxpayers was presented in the proper light."

Administrator, who was also the Secretary of the Interior, directly or through a sizable publicity staff, encouraged the establishment of publicly owned utilities to compete with or supplant existing private systems.

While the Reclamation Act of 1906 provided that the Secretary of the Interior might lease surplus power from irrigation projects, "giving preference to municipal purposes," no Secretary of the Interior prior to 1933 appeared to consider the Bureau of Reclamation under a mandate to encourage public ownership of electric utilities, merely to enable the Secretary to give that "preference." In fact, prior to 1933, the Bureau of Reclamation coöperated with private power companies near its projects to the advantage of both.

MOREOVER, the Bonneville Act of 1937, outlining the policies to be followed by the Bonneville Power Administration under the Secretary of the Interior, provided that preference and priority in the disposal of energy produced at Bonneville and Grand Coulee dams should be given public bodies and coöperatives "for the benefit of the general public, and particularly of domestic and rural consumers." But nothing in the act would appear to direct either the Secretary of the Interior or the Bonneville Power Administrator to encourage campaigns for the public ownership of local electric supply systems.

The Tennessee Valley Authority Act of 1933, aside from certain specific provisions for maintenance and operation of the Wilson dam, administration of the fertilizer plant at Muscle Shoals, and construction of Norris dam, called for promotion of the national defense, furtherance of the proper use, conservation, and development of the natural resources of the Tennessee river area, the furthering of agricultural and industrial development, and promotion of the economic and social well-

being of the people of the region. But the act does not appear to require that the TVA directors shall act as evangelists for the establishment of other river development and public ownership outside its zone of operations. Nor does it appear that TVA is required to maintain a staff of publicity experts to spread the praise of the "authority" type of development. This is what Mr. Ickes, then advocating a rival type of development, had in mind when he acknowledged Mr. Lilienthal's prowess as a propagandist.

But none of the Federal bureaus and agencies has been quite so frank in its efforts to influence public opinion in the same ways for which private electric and gas utilities were condemned as the Rural Electrification Administration. After reciting the war-induced handicaps that retarded its activities in the 1945 fiscal year, it states on page 12 of its annual report for that period:

> . . . the groundwork for a broader postwar program in this field was laid in educational studies and contacts

And how was this groundwork laid? By employing "all forms of publicity except 'sky writing' "; by furnishing material on rural electrification to the weekly and daily press, for the radio, and to farm and coöperative journals; by securing "the influence of school men"; and by supplying "material on rural electrification and its socio-economic impact on the nation" to publishers of textbooks.

Of its general publicity activities, REA reports:

> Several million pamphlets covering utilization of electric equipment and appliances were distributed to rural people through REA borrowers, vocational teachers, and county extension service workers.

Not only privately owned electric and gas utilities, but manufacturers of electric and gas equipment and appliances, have for years published and distributed literature descriptive of their energy-consuming devices to the public and at no time has this form of merchandising activity been considered improper. But, in distributing this literature, they used the mails or their own employees.

Again, the REA report says:

> Articles and material were prepared on request for farm and coöperative journals, for the radio, and for the weekly and daily press on many subjects of public interest connected with rural electrification.

Although "on request" is not defined, it will be noted that REA has been employing the same media to influence public opinion as did private utilities.

In connection with its use and attempts to influence school men, REA reports:

> Visits were paid to eight state departments of education and twelve state teachers colleges for the purpose of exchanging knowledge on the position of rural electrification in teaching curricula at the various levels. Rural electrification as a field of study was discussed at three college workshops on rural education in which a representative of REA participated by invitation. These workshops were held at the universities of Virginia and North Carolina and Peabody College in Tennessee. Actual training instruction was given vocational teachers in Kentucky by the Kentucky State Department of Agriculture in collaboration with REA borrowers in Kentucky and with help from REA.

It is interesting to learn that REA carried on its propaganda activities in our schools, colleges, and universities only "by invitation"—that it didn't just walk in and force propaganda down the throats of protesting educators. We find that even the publishers of textbooks "invited" REA to see

that rural electrification with the funds of the taxpayers was presented in the proper light. We read in the REA report that

> Publishers, particularly in the textbook field, were interested in receiving material on rural electrification and its socio-economic impact on the nation. Articles, background material, and photographs were prepared at the request of educational publishers. The American Education Press published a noteworthy feature on rural electrification for its grade-school readers.

Turning now to the questions first proposed, consider what Professor Edwin R. A. Seligman of Columbia University has to say about propaganda. In his report on public utility propaganda to the committee on ethics of the American Association of University Professors, published in the May, 1930, bulletin of that association, he said:

> In its origin the word propaganda was entirely innocent and innocuous. To propagate means to spread from person to person, to disseminate, to extend the knowledge of. The first time that the term came into common use was in 1622 when the Roman Catholic Church established the so-called Congregatorio de Propaganda Fide, or the Congregation of Cardinals to Propagate the Faith, *i. e.*, to manage the missions. Shortly thereafter Urban VIII instituted the College of the Propaganda, which was designed to educate missionaries for every part of the world. So successful were its efforts that the term was applied to any organization or plan for spreading a particular doctrine or system of principles.

ONLY since the start of World War I has the term acquired a somewhat different and less respected connotation. The attempts of each country during early war years to pin the blame for starting the war on its opponents led to the spreading of half-truths and absolute lies, all under the name of propaganda. It is not surprising that, in the years to follow, the term has commonly been accepted to mean the dissemination by highly partisan groups of doctrines which are reprobated by the general public or by large sections of the community.

Yet, no worthy end can be achieved without the attempt to educate or to influence others. Every minister of the gospel in his pulpit is in a certain sense just as much engaged in spreading propaganda as is the Communist on his soap box. And the President of the United States is propagandizing when he exhorts Congress to adopt his legislative program, or when he appeals to the radio public to support his policies. It is only when untruths are spread or when the true authorship of propaganda is not disclosed that it becomes an evil. To quote Professor Seligman again:

> It is clear . . . that there can be no objection to propaganda as such, always provided that it is open and aboveboard. Advertising is the most prominent form of modern propaganda (but) where the advertisement is carried on the editorial page without a disclosure of its true character, or where an editorial is paid for by some interested party, it obviously becomes in the highest degree

"EVERY *minister of the gospel in his pulpit is in a certain sense just as much engaged in spreading propaganda as is the Communist on his soap box. And the President of the United States is propagandizing when he exhorts Congress to adopt his legislative program, or when he appeals to the radio public to support his policies. It is only when untruths are spread or when the true authorship of propaganda is not disclosed that it becomes an evil."*

reprehensible. It involves a covert cheat, a deplorable deceit.

As privately owned electric and gas utilities were quick to admit, they were engaged in propaganda activities in the years reviewed by the Federal Trade Commission. In a sense, they are engaged in propaganda today to the extent that they conduct advertising and sales campaigns. But it is equally true that all departments and agencies of our Federal government are likewise conducting propaganda campaigns. It is to the credit of REA that it has the moral courage to admit it.

REA frankly states in its 1945 annual report that it has been distributing millions of pamphlets, selling the virtues of its methods of rural electrification, to the public and has been using schoolteachers, in part, as distributors. It has been preparing material on its own ideas of rural electrification for use on the radio, in farm and coöperative journals, and by the weekly and daily press. It has been visiting state departments of education, state teachers' colleges, and college workshops to spread its own rural electrification formula. And it has been supplying material to the publishers of textbooks. To be sure, it has done all these things by "request" or by "invitation," but no one familiar with the way a Federal agency can operate will imagine these "requests" and "invitations" were difficult to obtain.

So far, no member of Congress has proposed that the Federal Trade Commission investigate the propaganda activities of REA.

Can it be that sauce for the private goose is just applesauce for the public gander?

Expanding Horizons of Technology

"TECHNOLOGY *offers an avenue of escape from two of the economic dilemmas with which we have been confronted. The first is lassitude of investment in new facilities at a time when large numbers of our people were without many of the commodities commonly associated with the American standard of living.*

"It is likely that industry will make colossal investments in order to apply commercially the wide range of developments which technology now offers.

"The second dilemma is that involved in rising incomes at a time when purchasing power is declining. Business justifiably fears that the prices which now have to be charged place many articles beyond the reach of the mass markets and this condition prevails primarily because labor efficiency is so low.

"Our chief hope that, instead of pricing ourselves out of markets, we can price many more commodities into the mass market, is found in technology, for it is through technological improvements alone that 'real' costs are reduced."

—MURRAY SHIELDS,
Vice president, Bank of the Manhattan Company.

Do Foreign Co-ops Pay Taxes?

The report of the House Committee on Small Business of the 79th Congress defended the tax-exempt status of coöperatives in the United States. What is the corresponding practice abroad? A subsequent article by this author will explore foreign practice with respect to taxation of publicly owned utilities.

By ARNOLD HAINES*

WHEN Representative Walter C. Ploeser (Republican from Missouri) recently introduced in the 80th Congress a resolution (H Res 18) to recreate the Small Business Committee, there was considerable opposition based on the claim that creation of special committees tends to undermine the reforms contemplated by the new Congression Reorganization Act. Ploeser's reasons, however, were quite interesting, not only to small business, but also to coöperatives and those concerned, for one reason or another, with the coöperative movement in the United States.

Ploeser said flatly that the 1946 report of the old Select Committee on Small Business was a "whitewash" of coöperatives. The very fact that this committee of the 79th Congress even went into the matter of coöperatives when it was set up, originally, to aid small business may cause some surprise, since small businessmen (in the usual sense of that term) are not notoriously fond of coöperatives, especially competitive coöperatives. Senator Wherry (Republican from Nebraska), who is chairman of the corresponding special Senate Committee on Small Business, suggested one explanation. He said that when he took over the committee leadership he found that the staff personnel had been "infiltrated" by left-wing elements, many "borrowed" from other agencies of the Federal government. He added, "There's no doubt that we've had extreme left-wingers and fellow travelers on all these committees."

BE that as it may. Ploeser says that he is out to "counteract" the "propaganda" spread by the 1946 report. This report, among other favorable comments for the coöperative movement in the United States, defended the tax-exempt or largely tax-exempt position of the coöperatives. Now, inasmuch as the co-op is more or less a foreign importation, the question naturally arises as to just what these foreign countries do about tax-

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ing co-ops. If they tax them, how does it happen that we have imported the coöperative form, but without the coöperative tax?

The first foreign country one thinks of is Great Britain, where the coöperative movement is supposed to have sprung into existence with the first successful operation of the famous Rochedale pioneers, beginning in 1844. The following excerpt from the remarks of Sir John Anderson, chancelor of the exchequer, before the House of Commons on October 17, 1944, is of interest on the question of taxation of coöperatives, even though there are no gas or electric utility coöperatives of consequence in Great Britain:

> Since 1933 coöperative societies have been taxed on the whole of their profits in the same way as limited companies. The dividend paid by such societies, which is the sum paid as discount, rebate, dividend, or bonus, is allowed as a deduction in arriving at the assessable profits in the same way as discounts and rebates allowed by a company are deducted. The deduction admissible does not extend to any sum calculated by reference to any share or interest in the capital of the society.

Other sources of information indicate specifically that coöperatives are given no special allowance for reserves.

Next let us go to France. The only available statutory law on the subject is prior to the German occupation of World War II. But there has been no news of any change in recent French policy. With respect to French taxation of coöperatives, the following excerpt from the United States Department of Commerce's 1931 discussion of "Taxation on Business in France" is of interest:

> When coöperative associations possess establishments for the sale or supplying of foodstuffs, goods, or merchandise, they are subject to the tax on commercial profits.
>
> Agricultural associations and coöperative consumption associations are, nevertheless, exempt if they limit their activities to grouping of orders of their members and distribute in their establishments the foodstuffs, goods, and merchandise ordered. They are also exempt if they distribute annual bonuses to their members and set aside their bonus as a reserve which is not distributed among shareholders.

But note also the following from a report made to the President of the United States by a board of inquiry in 1937 on "Coöperative Enterprise in Europe":

> In France, the outcry of small retailers against tax favors to coöperatives brought about a change in the law; now French coöperatives are taxed on exactly the same basis as their competitors.

ANOTHER source of information states that in France consumer coöperatives have no tax advantage over competitors, but that workers' production societies get 25 per cent reduction on taxes on gains. From the standpoint of public utility interest, however, the French treatment of taxing coöperatives is mostly theoretical, since there are no coöperatives in that country extensively engaged in gas, electric, or telephone service operations.

And now Sweden, which is of special interest because of the widespread operation of the coöperative movement in that country. It has been so successful as to have been the basis for a prewar best seller by the American writer and Washington newspaper columnist, Marquis Childs. This book was entitled *The Middle Way.*

In Sweden, refunds to members of consumer coöperatives are considered as the equivalent of costs of operation and not taxable as income. A coöperative society "has the right to dispose of the preceding year's operational prof-

Check List of Income Tax Status of Coöperatives Abroad

Great Britain—Taxed on the same basis as private industry.
France—Taxed on same basis as private industry.
Sweden—Taxed on somewhat more severe basis than private industry.
Norway—Formerly taxed on same basis as private industry but now tax exempt.
Canada—Taxed on slightly more liberal basis than private industry.
Argentina—Tax exempt.
Australia—Tax exempt.
USSR—Co-ops owned and operated by government but also taxed.

Other countries reviewed either have no substantial coöperative operation of utilities or have not yet established postwar policy on this point.

its as rebates (or increment payments in the case of producer societies), but it is also accepted that in making tax declarations the societies may deduct from their taxable income the whole sum thus disposed of. If, however, this sum is not paid out in its entirety, owing to some receipts not being produced, the undistributed remainder must be counted as income in the next year's declarations."

Business practice in Sweden must be distinguished from that of other countries. In 1939, in a report of the taxation committee appointed by the Riksdag in 1936, it was disclosed that the system of making rebates "had become so extensively developed by private traders that it would be actually unfair to coöperatives to change the law so as to apply to them." Under the Swedish tax system, individuals are subject to a capital (or property) tax upon one one-hundredth of the value of their income in tax declarations. This tax has been extended to coöperatives which are required to add to their income "an amount corresponding to one two-hundreths of their capital additions in making tax declarations."

While "rebates" paid by consumer coöperatives are allowed to be deducted from taxable income under the Swedish law, "the rebates paid to purchasers from consumer societies are considered to be savings on the purchases, and, therefore, not assessable as income in the individual's tax return, provided the goods are consumed by the purchasers and not used in any

commercial transaction." For this reason rebates paid by a central coöperative society to a local society constitute declarable income for tax purposes of the local society. Members of producer coöperatives are required to include "increment payments" (dividends), made at the end of the year, in their tax declarations.

The report (to President Franklin D. Roosevelt) of the inquiry on "Coöperative Enterprises in Europe," in 1937, goes on to say that under Swedish state income and capital tax laws, with regard to income from business, the rules are the same as those of the municipal taxation law. With regard to income from capital, Swedish coöperatives are at a disadvantage, being subject to a graduated progressive tax the same as natural persons or foreign companies, while domestic joint-stock companies are taxed on a different basis, in which the basic amount is calculated by placing the income in relation to the share capital plus the reserve fund. It is for this reason that the Swedish Coöperative Wholesale Society and a few of the larger local societies, such as the one in Stockholm, are using the joint-stock company form for their productive units, thus securing certain relief from what they consider as abnormal pressure of taxation to which they would otherwise be subjected.

Another statement, from the same source, discusses the tax situation as to coöperatives in the following manner:

> Coöperatives pay no taxes on money used for patronage refunds, nor are such funds taxed as part of the income of the individuals. In all other respects, save one, Swedish taxation is the same for coöperatives and private business. The exception is that coöperatives pay a graduated income and capital tax on the same basis as natural persons or foreign corporations, while domestic joint-stock companies pay at a lower rate.
>
> For this reason coöperatives and some of the larger local societies are using the joint-stock company form of organization for their productive units. A government committee which has been studying this question has recommended that the law be changed to put coöperatives on the same basis as domestic joint-stock companies.

Next we come to Sweden's Scandinavian neighbor, Norway. With respect to the taxation of coöperatives, the report (to President Roosevelt) of the inquiry on "Coöperative Enterprises in Europe," in 1937, states that coöperatives receive some special consideration. They pay property taxes and taxes on the presumed income of their property; but unless a society trades with nonmembers it does not have to pay an income tax on its earnings from its trading activities. This was the law from 1917 to 1933, when Parliament passed a law requiring coöperatives to pay state taxes on their entire surplus, including that part of their surplus returned to the members as a patronage refund. A campaign of protests resulted in the repeal of this law a year later and the reëstablishment of the 1917 law.

Now Canada. Not unlike the feeling of many interested persons in the United States, who think that tax exemption of coöperatives affords these organizations a competitive advantage over ordinary business corporations, there developed in Canada a few years ago a similar situation. The regulatory law governing such organizations in Canada, however, until recently was more indefinite and uncertain in respect of its administration.

As in the United States, coöperatives

¶ "THE *Argentina coöperative utilities, although an outgrowth of agricultural coöperatives, have been well established a long time, have reached a considerable development, and are continuing to expand. Although operated largely in rural territories, they do serve some cities as large as 30,000 or 40,000 population."*

in Canada derived their exemption from tax on the theory of an agency relationship. The opposition contended that these organizations were carrying on business not as agents but on a trading basis for their own account and risk.

After several years of agitation of the subject, hearings were held in 1945 before a Royal Commission, which resulted in the enactment by the Ottawa Parliament on August 13, 1945, of an amended Canadian statute exempting new coöperatives only for a period of three tax years after commencing business. Existing coöperatives were generally taxed "as to interest on share capital earnings arising from nonmember business if paid to members, and any unallocated earnings or reserve retained." The measure provides for six basic features (from "Tax Liability of Coöperatives," Commerce and Industry Association of New York):

1. Coöperatives are to be considered on a different basis from profit business.
2. In paying patronage refunds or "dividends," coöperatives may distinguish between members and nonmembers, as in a difference in rate.
3. Three per cent of "employed capital" is taxed at a rate beginning at about 35 per cent before distribution of earnings, but interest paid on any borrowed money is first deducted from the 3 per cent, and this tax may be thus eliminated. "Employed capital" is total assets less moneys borrowed from banks.
4. Coöperatives have until twelve months after the current tax year to allocate earnings.
5. Moneys from current earnings used to redeem certificates of indebtedness are tax free.
6. Patronage dividends left with the coöperative with the written authorization of members, to be applied to share or loan capital, are tax free.

THUS, while patronage dividends or refunds are made deductible, income equivalent to an amount of 3 per cent of capital employed in the business, before distribution of "earnings," but after payment of patronage refunds, will be taxed at a rate starting at about 35 per cent. Interest paid on borrowed money, however, is first deducted from the amount representing the 3 per cent of capital employed.

Other major countries in Europe, notably Poland, Switzerland, and defeated Germany and Italy, did not have before the war any extensive coöperative operation of public utilities. Tax administrative policies in these countries (other than Switzerland), since the conclusion of the war, have been in such a state of flux as not to permit comprehensive, analytical research. Let us, therefore, turn south of the border to Latin America.

The Argentina coöperative utilities, although an outgrowth of agricultural coöperatives, have been well established a long time, have reached a considerable development, and are continuing to expand. Although operated largely in rural territories, they do serve some cities as large as 30,000 or 40,000 population. The coöperatives pay no taxes, and likewise pay no import duties, a consideration of some importance as most equipment is imported.

The central government officials have in the past informally recognized the unfairness of this situation to the privately owned utilities but have expressed complete inability to correct it, owing to the popularity of the coöperative movement.

In Chile, contrary to the trend in the Argentine, there has been no substantial coöperative operation in the utility field, although recently an active coöperative movement has appeared in other fields of commercial enterprise.

In Australia, coöperatives operated for the purpose of rendering services to shareholders are not subject to the income tax.

In Soviet Russia, farm coöperatives, although they are separate entities from the state for purposes of operation, are actually owned and operated by the state. Nevertheless, they are quite heavily taxed, especially with respect to any profits or dividends, money, or products over and above operating expenditure and further plant requirements. There can be no comparison between taxation of coöperatives and taxation of private business in Soviet Russia for the elementary reason that private business does not exist there. The ostensible form of the coöperative is quite widespread, however, especially with respect to agricultural activities.

"CONFIDENCE *in the continuation of the current high level of industrial production is justified so long as the inflow of new business capital continues at the rate of recent months. The capitalistic system requires a continuous flow of new business capital. . . .*

"Sales of new corporate securities for the purpose of raising new money have increased sharply since the war ended to a level that is well above any previous period except the boom period of the late 1920's. . . .

"The raising of large amounts of new business capital reflects the fact that businessmen have a high degree of confidence in the future. Their policies are based on long-term expectations. Many expect to produce improved old products, or new products developed during the war.

"They are doing the things that characterize expanding enterprise. They are taking present risks in the hope of making future profits. This process is the backbone of our private enterprise system, and it creates new jobs and a rising standard of living. An adequate inflow of new business capital is the lifeblood of a robust economy."

—EXCERPT *from "Business Bulletin," published by The Cleveland Trust Company.*

Tonic for Seller's Blues

Telephone people were apologizing for their company because they had never known it in the palmy days. So, the company got out a booklet to arouse employee pride of organization.

By JAMES H. COLLINS*

You run into it everywhere, in some places worse than others, and definitely it will have to be licked this coming year—the seller's market feeling among employees.

A bank advertising man went to a convention of his own kind, the first time since the war, and was astonished by what he heard. Before the war bank men had discussed selling. Now they were all agog about "public relations," which largely meant keeping the customers happy when you haven't enough facilities to take care of them, and maintaining a good personal note among employees who, all day long, have to say "no" in fifty different ways.

An antique dealer before the war, through a little periodical, had created a definite atmosphere for old things, appealing to sentiment for Grandfather's clock and Mrs. O'Leary's lamp. Many a brusque citizen whose insticts were all for the latest streamlined gadgets learned to feel reverence for lamps, coal scuttles, tack hammers, wax flowers—anything that had lived over from the 1880's.

One day the ad man picked up from the ash can what seemed to him a genuine and rare antique, and remembered this dealer, and his little store periodical. Just the man to ask about his ash-can piece.

"I have an occasional server, evidently dating around . . ," he began, and a strident female voice interrupted:

"We'd have to see it before we quoted you a price."

"But I only want to know whether it's a collector's item . ."

"Say, ain't I tellin' you that we got to see it before we buy it!"

And right there, a possible collector, for the days ahead when this antique dealer is again going to need customers, lost his tender sentimental interest in antiques that had been nursed by the dealer's periodical. Which was not the dealer's fault—he is the victim of an employee who has never known anything but a seller's market.

*Business editor and author, Hollywood, California.

In Los Angeles, Will Williamson had an accident that laid him up, and wanted a telephone extension at his bedside. Remembering 1940, he assumed that this would be an installation to be made next morning.

But that was another era, 1940 was far back over the hill.

The young man from the telephone company patiently explained why such a request for such a convenience was absurd, impossible, not to be thought of within the next two years—probably gone forever. He was nice about it, but Will Williamson could see that he was skeptical about anybody ever having had such telephone conveniences.

When he got around again, Will Williamson chipped and chaffed a telephone official about it and started something. The Southern California Telephone Company made a quiet survey of its people, and discovered that hardly one in ten had ever known the company when it was in top form.

When they were hired, a telephone had become a scarce article. People pleaded for one, tried to pull wires; had to be told, in a nice way, or in any way that would make them believe it, that there were no telephones; that there were no spare pairs in the cable under their street, even if they got a phone; that there were no switchboard facilities, no copper, no rubber, no labor; that all the phones were going to the armed forces; that, even if there was a phone, you would have to have government permission.

Because few employees had ever known their company when it had a surplus to sell, and a serviceman went out with a truck carrying every kind of phone anybody could possibly want, and could practically sell service then and there, the company compiled a booklet for employees, telling them what the company had been in the past; why temporarily it was obliged to apologize for its service; and what it would be like in a little while as new construction provided ample facilities.

This booklet has had a definite influence on the seller's market "blues," because younger employees have learned that, aside from interruptions of two wars, their company has always been able to meet all situations that rose for more than sixty years.

And that meant not only sudden tides of new population, needing more local service, but steep peaks arising in toll service, as radio, the Olympic games, the growth of industry brought demand for more transcontinental and foreign calls requiring vast installations.

"As far as we are concerned, the war is not over," the story begins, "as you can see when you know what it did to us."

At Pearl Harbor, the company had 854,000 phones and 14,600 employees, 8,400 of them women. Toll business to the East ran to about 2,000 calls daily. At Hiroshima, nearly four years later, it served 1,024,000 phones, had 18,000 employees (13,400 women), and was handling 10,600 toll calls daily to the East.

The war promptly stopped expansion of plant, along with all civilian construction.

Telephone employees were among the first people called by the armed forces—the young men, especially, melted away fast.

Research and manufacturing facilities of the Bell system were taken over for war.

Question: How did the company succeed in adding and serving 170,000 more phones, 20 per cent expansion, during the war without getting much new equipment?

The answer: It lived mostly on the fat that a good telephone plant puts on in normal times. It used up its fat—its reserves. A good telephone system always provides reserves everywhere in ordinary times so that, upon demand, even unforeseen emergency demand, it can provide new service, and promptly.

That is what a telephone company can be when it has to deal with a buyer's market. Every group of cables under the street has spares for new residence and business connections; every conduit between branch offices has spares; every warehouse has ample instruments and supplies; every service truck goes out with the driver figuratively calling, "What do ye lack? What do ye lack?"

To provide for war plants in a few growing areas like San Diego, San Pedro, and Burbank, the company was permitted to add a limited amount of new equipment for war purposes only. And also to add a little long-distance plant—for war purposes.

East across the Rockies, there were 154 direct circuits before the war. Today, there are 600. But they were developed by rearranging existing lines. Copper was scarce, so engineering brains made several toll circuits appear where none had been before.

JAPAN'S surrender found the fat all used up, and 131,000 orders for phones which could not be filled with present plant. After five years of stretching, the company was short of instruments, cables in the street, switchboards, buildings.

Three growth factors during the war had produced this shortage.

First, war industries, with no letup at war's end.

Second, increased buying power—people who might not have had phones before, now demanding them.

Third, a tremendously increased population — in Los Angeles county alone, 750,000 more people since 1940, equivalent to Metropolitan Omaha, Denver, and Lincoln moving to Los Angeles.

With the war over, people felt that there were no longer any reasons for getting along without a telephone, and orders poured in.

Worse, there is reason to believe that not all of them have as yet put in an order—but nearly a million have applied to date.

When telephone employees think of that situation, they are apt to feel that

¶ "TELEPHONE *instruments are what everybody thinks of as phone service. Western Electric made more than a million sets for civilians in 1945, more than four million in 1946. Sets have already become a minor problem. That was an assembly line job. Not so easy was the construction of new buildings, which the public seldom thinks of as part of phone service."*

the seller's market will last a very long time; that the fellow who wants a phone in his house, his office, is up against a pretty hopeless proposition; and that there isn't much use in kidding him along—the sooner he knows the worst, the sooner he will get busy worrying about something else.

This was the attitude that came naturally to the new employee who did not know what the company had been, and could not imagine what it will be again, when its heavy postwar programs are completed.

Not only had thousands of employees never seen the company at normal, but hundreds of thousands of subscribers and would-be customers. There were hundreds of service representatives who had never spent a day saying, "Yes, Mrs. Smith, we'll be glad to have that phone in tomorrow." All they knew how to say was "No—definitely no!" in fifty ways.

When it was tops, in 1940, the company had clipped down the average toll connection to ninety seconds. When the new customer said he wanted his phone in, that was the time he got it. If his phone was out of order once in eighteen months to two years, that was exceptional. Repairs were made on a home phone in four hours or less, on a business phone in two hours or less.

The system had a cushion of reserve equipment averaging 13 per cent. A disconnected number was allowed to "cool off," did not have to be reassigned immediately, to cause confusion. Overloads, busy signals, and slow operator responses were exceptional, and could be remedied right away.

"That's the way it was," says the booklet, "and that's the way it will be again, only better."

Objectives:

Toll calls put through in less than a minute.

Better service of the kinds now being rendered, and more and better services to sell, like one-party service at only a dollar a month more than two-party, low-price phone extensions in even small homes.

Radio phones to trucks, cars, boats.

Two-day short-wave facilities into the remote region where somebody has struck oil, or gold, or uranium.

Mobile phone service for the crowds at special events, something the company learned to provide for battle.

These are things to be proud of, if you work for the telephone company, and they are coming on a schedule that will bring many of them before the end of 1947.

These schedules were tentatively worked out early in 1945, when it looked as though the war might end soon. When military orders fell off, after VJ-Day, Bell manufacturing facilities were converted with exceptional speed.

Telephone instruments are what everybody thinks of as phone service. Western Electric made more than a million sets for civilians in 1945, more than four million in 1946. Sets have already become a minor problem. That was an assembly line job.

Not so easy was the construction of new buildings, which the public seldom thinks of as part of phone service.

How much building was needed for the Southern California system?

At war's end, it was occupying 2,-750,000 square feet of floor space,

Amount of Telephone Equipment Needed

"If Aladdin could bring his magic lamp and instantly provide all the central office equipment needed right now, his genii would have to materialize upwards of 300,000 more phones, or half as many as are now in operation in southern California. They would have to solder, in some magic way, at least 30,000,000 connections."

equal to a structure 100 feet square and three times as high as the Empire State building—278 stories. It needs another 100 stories, or 1,000,000 square feet of floor space on top of that. Or $12,000,000 worth additional to the present $17,000,000 worth.

A million more miles of wire—four pairs to the moon—for regional traffic, not toll lines. And only outside—perhaps two million miles more inside new telephone buildings.

If Aladdin could bring his magic lamp and instantly provide all the central office equipment needed right now, his genii would have to materialize upwards of 300,000 more phones, or half as many as are now in operation in southern California. They would have to solder, in some magic way, at least 30,000,000 connections.

However, Aladdin's phone throws back the busy signal and, meanwhile, the organization is contriving "make do" methods that should arouse some pride among employees.

People are making more calls over present lines, talking longer, sometimes the service isn't very good—but, while waiting for full new equipment, engineers have added 100,000 more phones, with equipment that arrived, and expedients.

There is an engineering committee that sits in session on everything suggested for stretching service during these seller's market days, and finding some better way to connect more phones, improve the service. No idea is too novel.

They investigate and report, and department heads decide whether it shall be done.

All the new connections are made by the company's priority plan, which is fair to the public, and relieves employees of many decisions, not to say arguments. Everything in No. 1 has to be filled before No. 2 is eligible—and so on down to No. 10. This states:

1. Service necessary to public health; temporary installations vital to

the protection of life; changes of address in the same office.

2. Business moves.
3. New business established by veterans.
4. Other business service.
5. Residence main service in cases of disability or serious illness.
6. Residence moves.
7. New residence main service in connection with military production, reconversion, and employment.
8. New residence main service for veterans, their families, veterans' widows.
9. All other residence main service.
10. Residence extensions.

TOMORROW, the telephone company is not only going to be good again, an organization for which no employee will have to apologize, but telephone service is going to be something different from anything the public has known.

"This is no stick-in-the-mud business," says the booklet. "We may be bound by laws and regulations, and the public's concept of what a communications company ought to be, but we are never bound to the past in our technical and scientific progress."

And some "famous firsts" are cited:

It was a Bell telephone engineer who heard the first voice to span the Atlantic by radio—during World War I.

First 2-way commercial radiotelephone, linking Los Angeles and Catalina island, 1920. Made private by the first "speech scrambler."

First practical television demonstrated by Bell engineers about nineteen years ago when pictures were sent over both telephone liens and radio; 2-way and color television demonstrated not long after.

First practical talking movie system, developed by Bell engineers as a by-product of telephone research, sold to Hollywood twenty years ago. More important than synchronizing pictures and speech was the problem of recording and reproducing so faithfully, and in such volume, that people in a large theater would enjoy natural quality dialogue and sound effects.

Much of the radar used by American ships in the recent war, and fire control apparatus for big guns, were Bell engineering contributions to victory.

BELL engineers have developed an uncanny device which will actually speak words when a trained operator depresses keys and levers. This is the "Voder." Also, a remarkable system for making speech sounds visible to the deaf — this may become hearing by watching a screen.

Many of these achievements have been by-products of telephone and communications research. They are spectacular and easy to understand.

But the most wonderful thing developed by telephone research is the one that is the main objective, always, the telephone system itself. That is the constantly improving product of tens of thousands of fine brains, working unceasingly and by succession, in the telephone tradition.

And to a certain extent with tied hands, because the telephone business, under regulation, is not allowed to earn the money needed for expansion and growth. That must come from investment by the public, billions of dollars which could only be obtained if the business was successful.

Since 1920 the telephone subscriber in any large city has had his rate reduced 60 per cent, measured by the

number of phones he can reach with a local call, and transcontinental station-to-station calls have been brought down from $16.50 to $2.50.

Now, looking ahead, the telephone employee who may be a little gloomy and curt because it is impossible to meet all present demands for service, can see new technical wonders looming up in the near future.

THINKING of tomorrow, as he talks to the complaining customer today, he is going to say to himself, "Boy, will you be astonished!" In that future about which he has private information, he forgets this seller's market impasse.

The time is fast coming when short-wave and ultra short-wave radio will be used in telephone service.

Where, in 1920, this company was proud of its speech-scrambled radiotelephone to Catalina island, now it has an ultra short-wave system there, sending eight conversations over one band of radio frequencies with complete privacy — a system developed for the Army and Navy by Bell "labs."

Tomorrow, the long-distance customer will get quicker connections by the use of dial equipment, probably enabling him to dial his own number in a distant city, or at least speed up the operator's work.

The new transcontinental coaxial cable, to come to and through Los Angeles, will carry hundreds of telephone conversations through eight little tubes, each with only one wire in the center — and this cable will later carry television programs, as radio programs are carried over telephone cables.

Lest the employee, reading about these improvements, wonder whether his or her job is safe, with people dialing their own toll calls, the booklet winds up by showing that every technical advance in the past has meant more employees and more opportunities.

NINE out of ten Bell phones today are dial operated, where a generation ago they were all served by operators.

The improvements in service and the decreasing rates have created many more subscribers, regardless of the growth in population.

In the days of manual operation, the average wage earner could not afford a telephone.

Today, the phone is as commonplace as the refrigerator in every American home. And the Bell system has many more operators and employees.

Bell management is determined that it shall not become obsolete in its thinking any more than in its equipment. It acknowledges no technical limitations or shackles. It has always found that the business offering improvements does more business. As the service is made better and more economical people use more of it.

And that means more and better jobs, a better business for the individual employee, reading this booklet to seek his or her career.

The effect upon employee morale of this meaty booklet, which uses graphs and cartoons to make its points, as well as succinct text, has been so happy that probably other utilities and business concerns, cursed with the "What's the use?" feeling of the seller's market, could overcome its employee inertia in the same manner.

Washington and the Utilities

Mr. Krug's 20-year Plan

MEMBERS of Congress are not so sure that Secretary Krug's proposal for a billion-dollar check-up on the nation's mineral reserves will get favorable treatment as an Interior project. Secretary Krug's report also urged the construction of the St. Lawrence power-seaway project, the establishment of a Columbia Valley Authority, and the continuation of all other Federal hydro projects. He said this was necessary to prevent private utilities from interfering with the national policy objective of spreading the benefits of cheap public power as far and as wide as possible.

On the score of public power alone, Krug recommended that Federal hydro output be stepped up from 14,000,000,000 to 55,000,000,000 kilowatt hours by 1960. The St. Lawrence seaway is necessary, he said, to prevent the middle western smelting industry from moving over to the coastal areas of the nation after the steel and other ore deposits of the Middle West-Great Lakes areas are exhausted. In other words, the boats from foreign countries with imported ores could keep right on going up the St. Lawrence river to coastal ports on Lake Erie, and the steel blast furnaces of the Ohio valley could keep right on blasting away.

But the Congressmen are becoming a little experienced now in the art of removing the "atomic dressing" from annual reports and budget recommendations. Regarding the proposed 20-year plan for taking inventory of the nation's mineral resources, one congressional member pointed out that quite a few scientists are thinking up ideas for a long, comfortable affiliation with the government payroll. But if "this information is so vitally necessary as a matter of national defense," the member said, "we need it now or in the very near future—not twenty years from now."

ASIDE from that, members of the Appropriations Committee indicate that they see little chance for a bigger and better Interior appropriation this year. The temper of the congressional majority is plainly moving in the other direction. The chairman of the powerful House Rules Committee, however, has his own ideas on taking an inventory of the nation's mineral resources. He is Representative Allen (Republican, Illinois), who has introduced a bill (HR 1602) to create a National Mineral Resources Division.

Although this would be set up within Interior, the proposed division would have its own director, appointed by the President, and would take over the exploration, development, stockpiling, and so forth of critical materials. It also would absorb similar functions now performed within the Department of Interior. The board would be able to spend up to $100,000,000 a year. But that is maximum authorization, not appropriation.

Atomic Band Wagon

NOBODY was much surprised when a fashionably dressed young woman recently walked into the famous Hotel Mayflower in Washington, D. C., with a hat ornament designed after the fashion of an artist's concept of the atom. In the center of intercepting silver circlets, a

ruby-red sphere was suspended to symbolize what is supposed to be on everybody's mind. And, indeed, it does seem to be on everybody's mind in the nation's capital these days.

It is not so much scientific thinking that is going on here. It is how to cash in on the national and international concern over atomic energy possibilities. New and old-line government departments and bureaus are looking over their programs to see if there is a possible "atomic angle" which can be developed. State, War, Navy, Justice, and Interior already have jumped on the "atomic band wagon" in some form or another. They have indicated that their respective functions have suddenly become most important because of some phase of development, protection, or national security in connection with the atom bomb or atomic energy research.

The newly organized Atomic Energy Commission already is having a little difficulty keeping in the forefront of the atomic spotlight. So many other bureaus seem determined to horn in on the act. Right on the heels of the annual report of the TVA, for example, which took a polite bow for making the atom what it is today (thanks to cheap TVA power) comes the Interior Department's annual report by Secretary Krug.

KRUG told Congress that what this country needs is a gigantic appraisal of its total mineral wealth and energy capacity. It would include the "price tagging" of all of our reserves, including oil, iron, copper, and fissionable materials, so that we will be able to tell "what we have and what it is worth" for purposes of national security. It would be a 20-year job and it would cost approximately a billion dollars. The Interior Secretary told Congress that his department would be glad to take over this grave responsibility.

"Research" is the golden word in the budget program for many of the government bureaus seeking more appropriations or at least to restrain the Republicans from cutting down on their funds too deeply. Research, everyone seems to agree, is very necessary. The Atomic Energy Commission seeks $443,000,000, much of it, presumably, for research. The War Department would like to get $220,000,000, and the Navy $36,000,000. The National Advisory Committee on Aeronautics $33,000,000.

For research also the Agriculture Department wants $59,000,000, and the Bureau of Standards wants $8,000,000. The Bureau of Mines $1,600,000, and so on and on. Most of these "research" programs casually hint about "atomic energy possibilities" or "new techniques affected by an atomic age," and so forth and so on. It would hardly be surprising if even the Bureau of Fisheries, the Post Office Department, or the Rural Electrification Administration popped up with an "atom angle."

FPC Investigation?

THIS brings us to rumors floating around Washington that the FPC itself might be subject to a little congressional investigation. One has become accustomed to such rumors in connection with the Federal Communications Commission. In fact, it seems to be in the cards that an FCC investigation will take place. But talk about an FPC investigation is more recent and more dubious.

The February issue of *Gas* magazine carries an editorial demanding a full-dress inspection of the political and social leanings of FPC's staff employees. Referring to the expectation that the FPC will make a "mild report" to Congress on its recent natural gas investigation, and also that the FPC will make no new demands for additional jurisdiction over either production or end use of natural gas, the *Gas* editorial stated:

> The whispered suggestion that the FPC may decide to play dead for a while in respect to these two highly controversial fields of jurisdiction holds neither hope nor encouragement for the natural gas industry, if the regulatory body is permitted to continue with a rate-making policy that will inevitably take the ownership of the industry out of the hands of private enterprise.

If this transfer of ownership is indeed the will of the people and the expressed intent of Congress, then the gas industry has no other course than to accept it as such, and resign itself to such managerial and operating chores as the state may still deem best left in the hands of technical experts.

But if it is not what Congress had in mind when it passed the Natural Gas Act, then it is time that the Congress itself take the steps necessary to insure that its mandates be carried out as intended, and its objectives no longer tortured into devious channels by administrative stealth and connivance.

We recommend in all earnestness that, just as the Federal Power Commission undertook an investigation of the natural gas industry for the guidance of Congress, it is now time for the Congress to undertake an investigation of the Federal Power Commission on its own account. Certainly a more thorough knowledge not only of the commissioners themselves, but of the background, the affiliations, and the social philosophies of the entire FPC staff would be of immense value to any congressional committee in appraising the weight and significance of whatever report that staff may compile on the natural gas matters.

The *Gas* magazine editors went on to remind their readers that regulatory policies are more often the production of staff members than top echelon commissioners. They recalled that a congressional committee had to repudiate an embarrassing report on the Inch pipe-line sale, written by an "inexperienced underling" of the War Assets Administration. The editorial concluded:

Unless Congress intends to delegate by default, to the Federal Power Commission, the right to decide whether the natural gas industry is to be publicly or privately owned, it must take immediate and positive steps to investigate and arrest the promulgation of those policies that are in opposition to legislative intent.

REGULATORY jurisdiction over natural gas operations is still receiving the attention of the courts on two other fronts. The Panhandle Eastern Pipe Line Company has decided to sue in U. S. Court of Appeals for the District of Columbia to set aside the operation of the recent FPC order granting the Michigan-Wisconsin Pipe Line Company authority to operate in the Detroit area, in which Panhandle Eastern claims to be rendering prior and adequate service.

From Indiana comes word that the state supreme court has reversed a lower state court decision and has now upheld the authority of the Indiana Public Service Commission to regulate direct sales to industrial consumers within the Hoosier state by Panhandle Eastern Pipe Line Company. It is expected that the company will take an appeal to the U. S. Supreme Court. A somewhat similar case is now pending before the Michigan Supreme Court. The National Association of Railroad and Utilities Commissioners appeared in support of both the Indiana and Michigan commissions in these cases.

FPC to Look at the Inch Deal

NOW that the troublesome Big and Little Inch pipe lines have been earmarked for sale as the result of the recent opening of bids by the War Assets Administration, the Federal Power Commission is setting its household in order for a nice long heart-to-heart talk with various interested parties about the future of these and other pipe lines. The successful bidder is authorized to take over the lines on a temporary basis (pending permanent certification) at the expiration of the present emergency contract now held by the Tennessee Gas & Transmission Company on April 30th.

But before the deal is permanently consummated, the FPC must grant a certificate. FPC Chairman Nelson Lee Smith told a congressional committee before the bids were opened that he expected a thorough commission analysis of the general subject of natural gas transmission from the Southwest into the eastern fuel markets, and that this might take as much as a year. It isn't simply a question of the Big and Little Inch pipe lines. The FPC wants to go into the much broader implications of such large-scale shipment of natural gas over such great distances and into fuel markets where it has never appeared before.

As a matter of fact, settlement of the Inch pipe line might well set the pattern for a number of other applications now pending with the FPC.

Exchange Calls And Gossip

FCC Eyes Bell Toll Cut

THE threat of another rate reduction in American Telephone and Telegraph Company's Long Lines Department would seem to have more than one interested party on edge in Washington and the states. Those other interested parties include, at a minimum, member companies of the Bell system, AT&T itself, independent companies, and the National Association of Railroad and Utilities Commissioners. This latter organization held its annual convention last November in Los Angeles and among its adopted resolutions was one asking the Federal Communications Commission to coöperate when it considered any new reductions in interstate toll rates on telephone messages. The NARUC asked that the states be given opportunity to present testimony on the disparity existing between interstate and intrastate rates, and that hearings should be held.

Apparently in accordance with this resolution, FCC Commissioner Walker wrote to the NARUC early this month advising it that the commission was considering the possibilities of a "substantial" reduction in long-distance rates for the Bell system "in view of the high earnings of the Long Lines Department." Any change in the existing pattern of interstate toll rates has inevitably led to subsequent changes in rates for other calls, so the state commissions are naturally vitally interested in any proposed change that would bring local companies into commission hearing rooms for rate reduction proceedings.

HERE is a rough idea of what a "Long Lines" rate cut might do to telephone companies. Interstate toll service is one of the three chief sources of all telephone revenues. It represents the fulcrum of the delicate balance in company revenues, now divided among interstate calls, intrastate calls, and local exchange service. When interstate (Long Lines) rates are reduced, there usually follows a demand for reduction of the rates on intrastate toll calls, especially over comparable distances. And when toll call revenue is reduced, there is little recourse for local companies than to ask for higher exchange rates for local service.

The argument has since been suggested that shifting the heavier telephone expense to local subscribers is somewhat discriminatory, since interstate toll users are better able to pay for the long-distance service. The point is raised that toll users are now paying for Long Lines service without complaint as to rates. The stand of the NARUC is that there is need for holding some sort of balance between toll rates inside the state and those on calls going outside it. Then, too, a cut in Long Lines revenues eventually reflects a double cut in AT&T's income, once from Long Lines, and again from smaller net return to member companies as a result of the Long Lines slash.

All these considerations would figure in any decision to make a "substantial reduction" in long-distance rates. In previous cases of this kind, Bell and the commission have agreed between themselves on the amount and extent of such reductions. But now, in the light of the 19 or more applications of Bell companies for increases in local and intrastate charges, there is some doubt of the system's willingness to go along with the commis-

sion on a proposition which would eventually tend to drive those charges the other way. Even the announcement of FCC's intentions in the matter is enough to put a damper on the state commissions' handling of these rate increase petitions.

Milder Dose for the FCC?

As congressional committees reach the point where they are finally in shape to get down to serious work, the much-forecast look-see into the Federal Communications Commission is again kicking around Washington whispering circles. This agency is one that, through circumstances, has been on the defensive since the midwar years. There are several majority Congressmen who have been anxious since the Cox Committee fiasco in 1944 for a good X-ray of FCC without the armor plate protection of the administration. And now that they have such an opportunity, they are apparently finding that FCC is quite highly regarded in quarters which used to be critical.

This is not to say that FCC's actions are beyond every reproach. Broadcasters are still angry about this and that. But so far as Congress is concerned, it seems to feel that the commission, under the now permanent leadership of Charles R. Denny, has shown admirable restraint if only by comparison with FCC's earlier movements under other chairmen. Accordingly, when legislators really get down to the task of rewriting the Communications Act and changing and limiting FCC's jurisdiction, the suggestions of the present commission will get some attention.

There is still every indication that, when time permits, some congressional group will go plowing through the old records and beat wartime commission policies about the head with great vigor. Two House committees stand ready to do the job—Interstate and Foreign Commerce, and Expenditures in Executive Departments. Due to the restrictions of the congressional Reorganization Act, the appointment of a special investigating committee seems unlikely.

While some House group is exhuming the remains of FCC's hectic past, Senator Wallace White's Interstate and Foreign Commerce Committee will be quietly working over a revision of the 1944 Wheeler-White Bill, proposed but never brought to the Senate floor. This measure was intended as a complete overhaul job of FCC jurisdiction and policy. One of its principal provisions would have split the commission into two sections, one dealing with telephone and telegraph communications, the other handling radio. Three commissioners would devote their time almost exclusively to one field or the other, with the chairman merely acting as liaison between the two groups and casting the deciding vote in case of a deadlock. When this provision is discussed with the present chairman, he is almost certain to oppose it. (What chairman wouldn't?) Here is where the change in congressional attitude comes in.

Committee sources say that if Denny does oppose such a provision, or most any other for that matter, his recommendations will get earnest consideration and may carry some weight. Senator White's staff makes it clear that the Wheeler-White Bill is only being used as a starting point. It plans long and detailed conferences with both the commission and communications industries, and the final bill probably will look a great deal different from the 1944 version. At any rate, the whole business is a long way from the floor of either chamber. Senator White and other top majority leaders are too busy right now to get specific about FCC or any other Federal bureau. Meantime FCC expects the worst from congressional appropriations axes.

Busy Lines on the Labor Rialto

On a quiet, Washington midtown side street there is a fevered buzz of activity these nights. The headquarters of the National Federation of Telephone Workers is on the verge of becoming the command post for its 1947 battle for new contracts with telephone companies, large

and small. On March 1st, those member unions which have not settled their contract terms with their respective companies will serve strike notices on them.

By now those union demands are well known—shorter schedules, higher pensions and vacation pay, and across-the-board pay raises that would boost maximum telephone wages to $57 a week for operators, and $92 a week for craftsmen. By now, too, the counterproposals of the telephone companies are known, thus bracketing the negotiations within these very broad limits. Bell companies have asked for elimination of the present bargaining clause and the check-off of dues. For nearly a month companies have sat with union representatives, and begun to get realistic about terms instead of catch phrases.

NFTW spokesmen make it clear that the tentative strike date of April 7th, much heralded in the daily press, is only a target date, and actually is only the earliest date on which a nation-wide strike could be called. It would not take much delay to push the phone workers' S-Day back into May, after the end of the 2-month steel truce and undoubtedly after a new crisis in coal. Though unions are speaking forthrightly before congressional committees, they are more concerned about keeping the public's blood from zooming up to anywhere near the boiling point. Without being able to get more specific about ways and means of settling present telephone contract difficulties, most observers appear confident that telephone workers won't hit the road this year.

NFTW President Beirne told the Senate Labor Committee just a few days ago that compulsory arbitration meant eventual government control. He asked for a definition of "industry-wide bargaining" and for a clearer indication of what Congress planned to do about it. Beirne pointed out that three of his unions had been bargaining on a nation-wide basis for years. These unions are the Association of Communications Equipment Workers (Western Electric installers), National Association of Telephone Equipment Workers (Western Electric sales employees), and the American Union of Telephone Workers (Bell's Long Lines division). Beirne asked that his union be left free to bargain with Bell or any other group of individuals. Neither Bell nor the independent telephone companies have so far indicated their wish to testify before the Ball subcommittee.

Red-hot Wires in Manhattan

IN the telegraph labor picture, New York continues to make the news. The jurisdictional battle between the Communist-tinged American Communications Association (CIO) and the Commercial Telegraphers Union (AFL), heightened on February 13th, when CTU petitioned the NLRB for a new election to win representation for the 7,000 metropolitan telegraph workers. (CTU has failed three times to win NLRB certification for bargaining, but this time it has raised the "one national union" issue on its own behalf, and has attacked the ACA for its useless 1946 strike and its pro-Moscow leanings.) On February 7th, ACA (now the bargaining agent) sent new wage demands to the company, asking 21 cents more an hour in wages, a union shop, shorter hours, and establishment of a health and welfare fund by the company. The union also is trying to negotiate for about $1,000,000 in back pay for some 1,500 of its senior employees who did not share in that 1946 retroactive wage boost. Late last month Judge Samuel Seabury, sitting as special arbiter in the Western Union dispute, turned down the union demand for adding these employees to the retroactive wage bill paid by the company. The question was a technical one, involving a claim of ambiguity in the contract.

Incidentally, Western Union got its head above water, at least temporarily, during the month of December, showing a tentative profit of $500,000. About one-third of this amount will be declared dividend income, according to WU President Egan.

Financial News and Comment

By OWEN ELY

Fair Return for a "Sheltered" Utility

REFERRING to the 5 per cent fair return rate recently fixed by the Federal Power Commission in the Safe Harbor Water Power Case [66 PUR (NS) 212], the rate was fixed at this low figure apparently because the company was considered to be in a "sheltered position." Its entire common stock was held by two other companies which also purchased its entire outfit. Albert W. Kimber, financial consultant in Washington, writes this department as follows:

> The first use made of this theory by the FPC, so far as I know, was in the Chicago District Electric Generating proceeding where the commission fixed the rate of return at 5½ per cent; in Safe Harbor they have gone further and made it 5 per cent.
>
> Now, if any company or anybody is sheltered it is because somebody else is sheltering it. If the condition of being sheltered means, as the commission says it does in this case, that the company has escaped all or some of the risks which would otherwise attend its operations, it is because some other company has assumed those risks. The assumption of risks by the other company does not eliminate the risks, of course; it merely transfers those risks to another. The operating of Safe Harbor is attended by greater risks than those of a less concentrated character. Inadequacy of stream flow, with lower kilowatt-hour output, irregularity of stream flow with inadequate storage resulting the same way, costly flood damage, and other similar incidents, are matters of experience and record for Safe Harbor. Since organization of the company, over fifteen years ago, these risks have been assumed and the cost of their occurrences paid by the two contractors for its output.
>
> Now the assumption of risks is a recognized business, in this country and elsewhere; one can insure himself, as we say, against almost any conceivable risk, meaning that the insurer guarantees to pay whatever costs may be created by materialization of the risks, usually up to a fixed limit in dollars. Regular charges per annum are made for such assumption of risk; nobody dreams that anybody would assume risk without compensation.
>
> Now, in the Safe Harbor Case, the commission has ignored this principle. It asserts that Safe Harbor has practically no physical or commercial risks because it is sheltered by the two contracting companies; but the commission in reducing the rate of return to 5 per cent per annum has eliminated the compensation to the contractors for the assumption of risks, a compensation which was calculated in advance to come through the dividends on the Safe Harbor common stock which they had. And, incidentally, the form of contract the two proprietors executed and the rate of return thereunder, were established by requirement of the commission of the state of Pennsylvania, which refused to approve a kilowatt-kilowatt-hour form of contract which was at first submitted.
>
> In any case of ordered rate reduction, there are two principal parties to be considered. The first is the investors in the utility enterprise, the men who put up the money to make it a going public service. The second is the consumer, the customer who buys the service provided by the investor. In the Safe Harbor Case the results on both are so weird that they invite inquiry. But this letter considers primarily the effects on the investor.
>
> During the five years 1941-1945 net income of Safe Harbor after all income charges and deductions averaged $3.67 per share per annum. Giving effect to the recent refunding, and for the moment forgetting (which we should not) the charges to the investor (earned surplus) incident to the refunding, the investor winds up for the year 1947 with *pro forma* earnings per share of approximately $3. From the average $3.67 per share over the last five years, Safe Harbor paid an average of $2.80 per share dividend per annum; and from the indicated withholding of dividends and accumulation of undis-

bursed appropriations for depreciation, has accumulated a substantial cash holding.

The refunding included the borrowing of $5,000,000 on a 10-year note, which is repayable $500,000 per annum. This requirement will absorb practically all of the new $504,100 depreciation charge which the Federal Power Commission has ordered. Therefore, for the next ten years the company cannot accumulate any cash from its depreciation charges. On the other hand, it must provide something for renewals and replacements, chargeable to depreciation reserve; during the last five years these have averaged only about $21,200 per annum, but during the next ten years will almost certainly require much heavier outlays. Safe Harbor is still a comparatively new plant, placed in operation only about fifteen years ago; cash requirements for refacing of dam, rewinding of armatures, replacement of turbine parts, and the like will certainly be greater in the next ten years than they were in any like period heretofore.

The effect of the new and larger depreciation charge will be annual reduction of the corresponding amount from the rate base, and, as the return is to be calculated on a depreciated base, a reduction in the return amounting to $25,200 per annum, except to the extent that plant account is rebuilt by replacement or new installations. An offset is the saving of interest, $8,750 per annum, through repayments on the note, leaving net loss of income for the stockholders of $16,450 per annum. This is only a little more than five cents per share, but if it continues for some years it will count up. No allowance for Federal income or other taxes is made in this calculation, as the 5 per cent rate of return is after all taxes.

From earnings during the past five years averaging $3.67 per share the company as above stated paid dividends to its proprietors averaging $2.80 per share. From indicated earnings of $3 per share, giving effect to refunding and the FPC order, what will the company be able to pay out by way of dividends? This writer attempts no estimate. But it is clear that it cannot continue at $2.80 per annum, and that the investment which the stockholders made in this property, which has been certified by the FPC practically dollar for dollar, has been seriously impaired.

What is the reason for this mulcting of the investor, this robbing from the guarantors of the premium to which they were entitled for taking the risks they did? The FPC made no showing that the rates charged by Safe Harbor for its energy were unjust or discriminatory.

The only reason for the ordered reduction seems to have been that Safe Harbor was realizing too high a profit on its investment. But it did not realize any such profit in the early years of its operation; calculated over the whole fifteen years its realized profit in fact was less than 6 per cent per annum. And the reasons why this was built up in recent years to 7 per cent per annum derive from the skill and acumen with which the proprietors planned and located the facility, and brought it, through all kinds of hazards and risks, to the status of a profitable enterprise. For this they are now denied compensation. If the order stands, they will get nothing hereafter but a low rate of return on their investment, not sufficient to include a premium or the accumulation of a reserve against risk.

In other words, in this industry, if you take a risk and lose, you lose; if you take a risk and win, your gains are taken away from you.

Utility Analyses for Wall Street Firms

HAROLD YOUNG of Eastman, Dillon & Co., in a memorandum entitled "Public Utility Common Stocks for Long-term Investment," mentions five reasons why equity shares of utility operating companies should interest both institutional and private investors. We summarize these as follows:

(1) The industry has an outstanding growth record and electric rates are the lowest in history. (2) There is every indication that growth will continue, with new residential customers, new household appliances, new industrial applications, extended rural electrification, higher lighting standards, etc. (3) The utility business is much less sensitive to the business cycle than many other enterprises; industrial business is the least profitable part of the enterprise, and at present inefficient stand-by plants must be used to take care of some industrial business. (4) Increasing labor efficiency together with modern equipment (when obtainable) may partially offset higher utility operating costs. (5) While utility profits are restricted by legislation, on the other hand the investor is protected by assurance of reasonable return. (6) The financial structure of the utilities has been much improved in recent years, depreciation policies are more conservative, etc. (7) Information about current utility operations is easily obtainable and the volume of statistical information on current operations is increasing.

LEWISOHN & Co. has prepared a bulletin on Tennessee Gas & Transmission Company which it thinks may become the largest gas pipe-line company. "So far," the firm states, "demand for natural gas has kept ahead of the transmission capacity of this company, carefully engineered expansion plans have already been laid, earning power has been established, and the financial integrity of this new company is being proved in the capital markets." Earnings for 1946 were estimated at over $1.60 compared with $1.25 *pro forma* in 1945, and $2 was estimated for 1947, with a further moderate uptrend foreseen in later years. The firm saw no immediate change likely in the stock's over-the-counter status, and cash dividends were considered to be some time off. The system is expected to expand to a capacity of 600,000,000 cubic feet daily and eventually perhaps to as much as 1,000,000,000 cubic feet.

John Feely of Paine, Webber, Jackson & Curtis has prepared a circular on Northern Indiana Public Service Company. Capital structure is reported to be 56 per cent debt, 23 per cent preferred stock, and 21 per cent common stock equity. Earnings per share for the twelve months ended November 30, 1946, were $1.80, compared with $1.07 in the calendar year 1945.

Sutro Bros. & Co. has prepared a memo on Virginia Electric & Power Company common stock "when distributed." Stockholders of Engineers Public Service Company are scheduled to receive 1.45 shares of Virginia for each share of Engineers common, probably early in April, at which time the new stock may be listed on the New York Stock Exchange. A year's dividend is being paid on the stock to Engineers before the distribution, and no payment will be made to public holders until June 15, 1948. Earnings for the twelve months ended November were $1.74 on the new basis.

Fred W. Fairman & Co. of Chicago, in its "Investment Barometer" for February, discusses Central Public Utility Corporation 5½s (which it considers have an estimated value of 35-42), Midland Utilities Company, Midland Realization Company, and Northern Indiana Public Service Company.

FIRST BOSTON CORP. has prepared a tabulation of 52 electric utility operating common stocks, showing among other data the percentage of earnings paid out in dividends, the common stock equity (per cent of total capital), and the rank in relation to other stocks with respect to yield and price-earnings ratio.

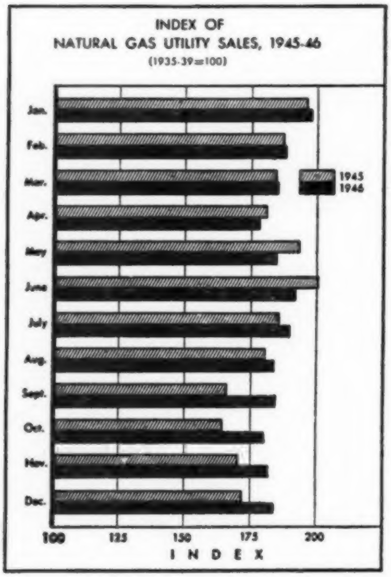
Eastman, Dillon & Co. has prepared a 6-page memo on Southwestern Public Service Company. Based on the price of 36-7 stock has been selling at about 11 times earnings and returning a yield of nearly 5½ per cent. The firm pointed out that the company's electric properties are now almost entirely interconnected, the financial structure strengthened, and that it operates in a territory with conspicuous growth characteristics.

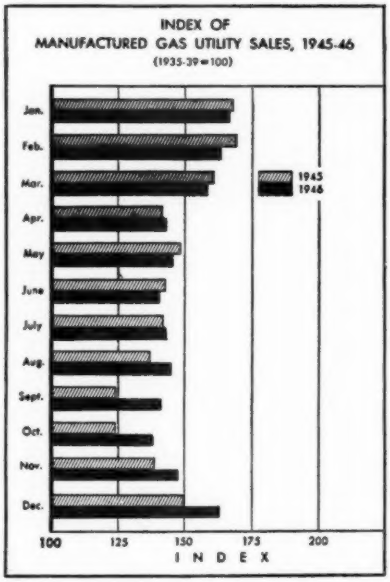
Josephthal & Co. has issued a study on Virginia Electric & Power, the price of which (19) it considered depressed by temporary conditions, including the fact that there will be no dividend until June, 1948. Truslow Hyde estimates that, with conditions continuing as at present, eventual payment of dividends at the rate of $1.20 would be a logical expectation, and on this basis the present price would reflect a future yield of 6.3 per cent.

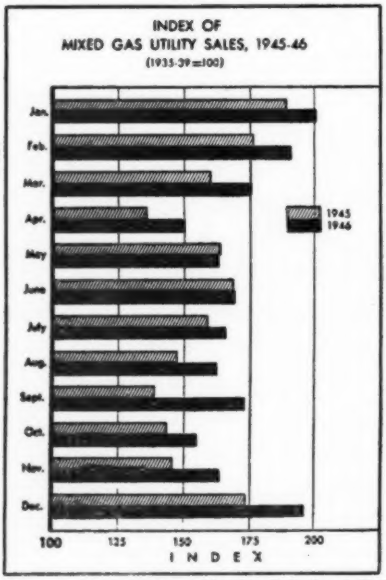
Thomson & McKinnon has prepared a brief review of International Hydro-Electric preferred, in its stock survey. H. Hentz & Co. discussed Cities Service Company $6 preferred in a recent issue of its *Fortnightly Investment Letter*. Merrill Lynch, Pierce, Fenner & Beane has issued a 4-page analysis of Electric Bond and Share Company.

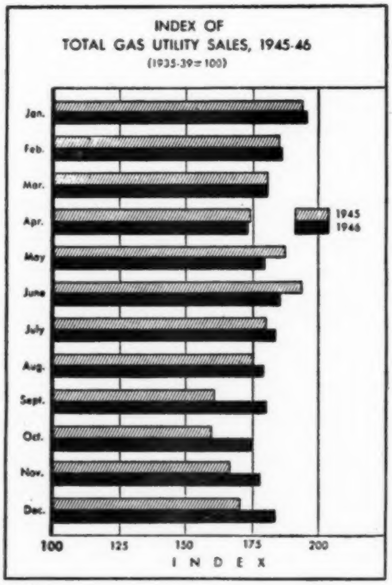
Moody's Service in a recent bond survey pointed out that refunding plans have been initiated for some $500,000,000 utility bonds, including Consolidated Edison Company of New York's $290,000,000. This would compare with refunding of 1 billion in 1944, 1.2 billion in 1945, and .8 billion last year. A dozen other issues aggregating $725,000,000 might also be candidates for refunding.

Indexes of Utility Gas Sales









American Gas Association, Monthly Bulletin of Utility Gas Sales

What Others Think

What Do People Think about Their Electric Company?

An address was given by Joseph C. Bevis, of the Opinion Research Corporation, at the annual convention of the Indiana Electric Association last fall, on "The Public's View of the Electric Power Industry."

Based upon actual studies of public opinion (as revealed through personal interviews), which were evolved and conducted upon a skillfully devised technique, the comments by Mr. Bevis cast light on several phases of the public relations side of the electric power and light business. His recital of certain findings, resulting from the surveys, and his observations regarding the public viewpoint contain much of real value to those in the management of investor-owned utility companies.

Mr. Bevis first called attention to the fact that doing business today involves more than merely performing an economic function well. He said that the utility business is no exception—"you can provide a lot of jobs, pay high wages, contribute to every fund that comes along, provide excellent service at rates your customers agree are reasonable, and still have the public down on you."

Then, after giving an outline of the methods used in making surveys for special purposes, mentioning especially the importance of the experience and skill that must be employed in setting up the questioning technique, the speaker, dwelling upon the necessity which confronts the electric industry for dependable, factual information as to how the public views it, said:

> All executives of business-managed electric companies are only too well aware of the competition you are facing in the form of public power. Our studies during the last few years have demonstrated clearly that the American people are essentially fair-minded. They believe heartily in the democratic principles upon which this country was built and, ordinarily, given all the facts in a case, arrive at a sound judgment.
>
> The electric industry is now in the front-line trenches fighting the battle of free enterprise—fighting for the principles in which the American people, we know from our studies of public opinion, heartily believe. And yet, a large proportion of the people favor government ownership of their electric company. In last year's national survey the figure was 42 per cent in favor of government ownership.
>
> Why is this?
>
> You can rest assured that it does not mean the public is becoming more socialistic. As a matter of fact, our studies over the last couple of years have revealed a noticeable swing to the right in public thinking. What it does mean is that the public hasn't been given all the facts. Some executives may cling to the idea that the facts speak for themselves—that low rates, good service, and a genuine desire to act in the public good are sufficient to guarantee a friendly public.

Any such conclusion, Mr. Bevis declared, is based on a false premise. "The facts," he stated, "often do not speak for themselves. Good deeds and good motives are not enough. In addition to doing the good deeds and acting in the public's interests, you must find a way to make the public aware of your acts and your intentions if you are to gain credit for them."

This same principle applies, the speaker pointed out, in the industry's controversy with the advocates of public power. He asserted that, if the people are made to understand the facts in the case, public support for business ownership will rise measurably. For example, he observed:

> . . . the American public is receptive to the idea that if government is to compete with private business in the power field, it should do so on an equal basis, including the payment of taxes. In last year's national survey, we found that 50 per cent of the people

believe that government projects such as the TVA should pay the same taxes that private companies do. Only 34 per cent said government projects should not pay the same taxes, and 16 per cent had no opinion.

Moreover, the public will support your industry's contention that power from government authorities should be sold to private companies. Sixty-seven per cent of the people say the power generated at government dams should not be restricted to coöperatives and to municipal plants, but should also be sold to private companies.

Remarking that the real need to arm the public with the facts is shown by numerous research findings, Mr. Bevis mentioned that TVA today receives the approval of a large majority of people throughout the country. In a passing reference to the TVA propaganda machine which, the speaker said, even the staunchest critics will grant is one of the best that has ever been devised, and as an example of the kind of propaganda the electric industry is up against, he cited this incident:

. . . an associate of mine the other day was telling me about a textbook that is being studied by his son who is in the sixth or seventh grade of public school. The book is entitled, *Adventures in Democracy*, or something like that. The son brought the book home to study, and my associate saw it lying on the table and started leafing through it.

He says it contained six full pages about the TVA. It told what a wonderful thing government power is, how it has brought prosperity to the people in the Tennessee valley, mechanical refrigeration and electric washing machines to thousands of homes that had had no modern conveniences before, provided scenic lakes and public parks, etc.

But did it say that these dams had been built at the cost of hundreds of millions of dollars taken from the public Treasury? Did it say that the school children who were studying the book would in all probability still be paying for these dams when they were grandparents? Did it say that those lakes inundated thousands of acres of fertile bottom lands that never again will produce a crop or contribute to the treasury of the local government?

You can bet it didn't.

SPECIAL emphasis was placed by this research man on the effect of rates on public relations. "In every survey we have made in the electric field," he continued, "one factor has stood out as having a very important bearing on what your customers think of you. That one factor is rates." And, in amplification of this, he added:

It is our considered judgment, after looking back over many studies of public attitudes toward electric service, that the question of rates is the key to a lot of the difficulty you are experiencing now. I don't mean to imply that if criticism of rates could be reduced to zero, the public would automatically vote 100 per cent for continuance of the present management. The personality of the company, the quality of its service, the friendliness of its employees, and the good it does for the community all contribute materially to public good will. But the rate question is of great importance in the picture and is the keynote of public's desire for public ownership.

As evidence, in study after study when we ask the people why they favor government operation of their electric system, they reply, "We'd get lower rates." And last year when we asked a cross section of the national population which they thought would give them lower rates—public or private operation—68 per cent said they thought their rates would be lower under government operation.

And here's a curious thing. Whether your rates actually are higher or lower than rates in other territories has little bearing on what the public thinks of your rates. People's impressions in this case bear little relation to the facts, but it is the impressions that count. After all, people vote and make decisions on what they believe to be the facts.

We have seen instances where company "A" with a relatively low rate receives greater public criticism on this score than company "B" with a higher rate. The whole thing stems from what the company has done to create impressions in the public's mind.

It was the considered conclusion of Mr. Bevis that the electric industry has not yet fully capitalized on the great progress it has made in reducing the cost of electricity to the consumer. He told his audience that

. . . Despite the fact that rates have been reduced sharply during the last fifteen years or so, when we ask the customers themselves, we find that three-fifths of the people nationally have no awareness of any reduction, and for many individual companies the proportion is even higher. As a matter of fact, one out of every five persons nationally thinks rates are higher now than they were several years ago.

In view of the fact that the national advertising, as well as individual company advertising, has been steadily pounding home the

idea that rates have come down in recent years, I think it likely that public consciousness of rate reductions has risen. The next national survey for the industry will show whether this is the case. It is quite evident, however, from the emphasis the public places on rates, and the effect of impression of rates on the public's attitude toward government ownership, that continued stressing of the theme "more for your money" is thoroughly sound.

POINTING out that it is sound public relations strategy to take advantage of every opportunity to remind the public of what their dollars spent for electricity will buy, Mr. Bevis expressed the view that these opportunities are not always taken advantage of. He remarked:

. . . I know of one company that has reduced rates several times during the last decade. On some of these occasions, they took a quarter page or so in the local paper to announce the reduction, and sometimes they put the reduction into effect without any publicity at all.

How much more effective these reductions would have been in building consumer good will if on each occasion they had included a friendly note with every customer's electric bill stating something to the effect that "on this bill you are getting the advantage of the new rate reduction we have just put into effect," and stating that "we intend to reduce rates in the future even further whenever our operations justify it."

Turning to quite another angle of the question of the factors which affect public relations, the speaker talked about a utility company's social contributions. Those are weighed by the people, consciously or unconsciously, he said, in determining a company's right to remain in business, as well as its economic contributions. Whether it is a good employer, whether it exerts effort and influence in behalf of a better community, and whether its motives are good—these are all considered. A large majority of electric companies are well aware of this, and are doing things every day that will enhance their reputation with the public, he declared, but he also questioned if more couldn't be done in this direction. He added:

For example, an excellent way of building public good will is through your employees. These people are dependent on the industry for their livelihood although no more so than you are dependent on them for the continued operation of your business. Collectively, they have hundreds of thousands of friends and meet hundreds of thousands of customers whom they can influence to think well or ill of the company and of the industry. Here is a means of communication with the public that is not being completely overlooked but is certainly not being taken full advantage of—an opportunity to widen measurably the number of people who understand what your industry stands for.

To bring out this point more vividly, reference was made to the last national survey of the general public made by his research organization, in conjunction with which a study was made among electric company employees. This study, it appears, revealed some thought-provoking points of view on the part of a number of employees. It showed, he said, that

. . . although employees are considerably more favorable and know more about the electric industry than do the people at large, there are still important minorities who hold views that are hostile to their company's interests and therefore their own interests. For example, 11 per cent of electric company employees actually favor government ownership of their own company. Similarly, 42 per cent of the employees vote in favor of the government's building more dams; and over one-third think the establishment of more TVA's would be a good idea. Employees who hold such opinions as these obviously have not been given all the facts about the industry of which they are a part, and cannot be of much help in creating a favorable public attitude.

Mr. Bevis then brought out still another factor developed from their studies of public thinking. A very important element in the public's over-all appraisal of a company, he remarked, is its judgment of the motives of that company. The public is able to judge tangibles such as coffee, shoes, and automobiles, but has a more difficult time judging intangibles such as the Wagner Act or the Paris Peace Conference. In such a situation, he observed, they fall back on a shorthand judging device—the test of motive. In regard to business organizations this means that if the people feel that a company is trying to do the right

thing—is doing its level best to give the public a square deal—they are willing to overlook many shortcomings in that company's performance. Applying this to the utility business, Mr. Bevis commented:

In our last national survey, we asked a question that was designed to give us some feel of the public's estimate of the electric industry's motives. The question was this: "Suppose the electric light company's cost of supplying electricity were lowered. Do you think they would be willing to lower their rates to the public, or do you think they would try to keep rates high so they could make more money?"

It is to the credit of your industry that fully 50 per cent of the people nationally believe that if their electric company could operate more economically it would be willing to reduce rates. You thus have the support of one out of every two people on this important issue. But I doubt that any executive in the industry would be completely satisfied with this showing. The fact that 14 per cent of the people have no opinion on this question of the electric company's intent, and the fact that 36 per cent actually say the company would try to keep rates high if its costs were reduced, indicates that there is still a big job to do in convincing the American people that business-managed utilities actually have the best interests of the public at heart. But it is very important that this be done if you are to gain effective public support.

An incident was then related by Mr. Bevis of the experience of one of their interviewers with a personal friend of the speaker. "This friend," he declared, "is far to the right in his political philosophy. He has always voted a straight Republican ticket and is a staunch defender of the free enterprise system."

He then continued:

. . . This survey on which he was interviewed was investigating the public's belief in the principles of free enterprise. During the course of the questioning, this friend realized, and so stated his opinion to the interviewer, that it actually made little difference to him personally whether his local electric company was municipally or privately owned. He told me about it and the two of us tried to figure out why he felt that way. We came to this conclusion which, I think, has possibly wide application.

He knows little about his electric company. He knows nobody that works for the company, and can remember no occasion in recent years when he has had any personal contact with a company representative. He remembers seeing no advertising, has heard no talk about the company, and knows only that he gets a bill somewhere between $7 and $10 each month which he pays by check and mails in. It has never occurred to him, consciously, at least, that it takes hundreds of employees and millions of dollars worth of plant and equipment to provide him light and to run his refrigerator and his vacuum cleaner.

At no time in the last several years has he had an interruption in power, and yet this has never been called to his attention. His only contact with the company or its product is when he walks into the room and flicks the switch. The light always goes on. Paradoxically, the fact that it does go on serves to make him less conscious of the value of the service. For, as a general rule, the fewer the interruptions in their service, the more people are inclined to take that service for granted, and the less conscious they are of all the work involved in providing that service for them.

The belief was expressed by Mr. Bevis that his friend is typical of many others in the nation, and provides a good illustration of one of the electric industry's biggest public relations handicaps. And that handicap, he stated, is "not enough personal contact with the customers." To substantiate this view, he further remarked:

We see plenty of evidences of this in our surveys. To give you only one—in the national survey only a little over one-fourth of the people said that their electric company had done anything in the last year that made them feel it was making a special effort to give good service.

The fact that by the very nature of your business you do not come in contact with your customers poses a real problem. But there is some evidence to indicate that the industry does not take advantage of all the opportunities for contact that it does have. Seven per cent of the people in the nation say they have had unsatisfactory dealings with their company—that's one-fourth as many as praise the company.

The people tell our interviewers that one of the criticisms they have of big business is that it lacks the human touch. Big business, they feel, treats individuals as numbers rather than as personalities. It puts profits ahead of humanitarian interests.

And it is quite evident from our studies that the people do not feel well acquainted or close to their electric company. They tend to look on the company as a cold, distant organization. That feeling can be

Courtesy, The New Yorker

"NO IT ISN'T! YOU HAVE THE WRONG NUMBER"

changed—and must be changed if you are to have the public think well of you.

What the people think today stems from lots of things, many of them trivial incidents —a passing reference to the company in a conversation with a friend, a glance at a company ad in the local paper, a smile and a pleasant remark from an employee as the customer pays his bill, a courteous (or an abrupt) answer to an inquiry at the company office. All these things and many others go to make up the public's appraisal of your business and your company.

In closing his address, Mr. Bevis said he knew from the extensive association of his organization with members of the electric industry that there is a solid foundation of character, integrity, and public spiritedness behind that business. The chief difficulty, he observed, is that a large part of the public doesn't realize this. This, he thought, "may be because you have been a little too modest in the past, because you haven't declared yourself," and finished with

> So let me say that if you have the real interests of the public at heart, if you are motivated by a genuine desire to be of public service and are not in business solely for profit—then let the people know about it. Tell them what you are trying to do, what your

aims and objectives are. People will respect you and have greater confidence in you if they feel you are working for the same goals they want to achieve.

Of course, this is not something that can be published in advertisements or in speeches by executives and then not substantiated by other representatives of the company. Your public relations policies must be known and must be followed by every member of your organization, from the president down to the janitor.

If you do this—if you can instill a true spirit of service in every employee and if you make sure that you not only do good deeds but that you tell the people about them—then you are bound to gain increased public confidence.

In reading this address, by a man engaged in the scientific study and analysis of public opinion, especially as it reflects the viewpoint of many people regarding business-managed, investor-owned utilities, one is impressed that only by continuous effort will the truth about that business be actually understood by the masses of our people, whom those utilities serve.

It will be noted that Mr. Bevis, while urging the need of more active work on the part of the utility industry to make widely known the facts about its affairs and its accomplishments, gave credit to those companies who are doing that very thing.

That there is definite recognition that utility companies must do this job themselves may be seen in several directions. Aside from the national publicity, in magazine advertisements and over the air of the group of 170 investor-owned electric companies, a number of individual utility companies are carrying on campaigns for better understanding, designed to inform customers, employees, and the public at large in their service territories. Articles and reviews in this magazine in recent months have told of these activities.

There is every indication that more and more companies will enter the lists, to the great benefit of the business-managed utilities, in making widely known the facts about this important segment of free enterprise in this country.

How Does a Gas Meter Work?

For years the gas industry has been attempting to develop a gas meter which would enable a person to watch a gas meter in operation. One made of glass was developed but found to be both impracticable and too costly to manufacture. Meters with glass fronts were experimented with but failed to show the complete operation of the meter.

Now John Addison of 15 Myrtle avenue, Newark, New Jersey, a meter repairman in the Newark meter shops of Public Service Electric & Gas Company, has developed a transparent plastic display meter that officials of the company's gas department believe far surpasses any other yet developed. It shows every part of the meter in operation.

The proper procedure of this work was learned by Mr. Addison from technical information in public libraries and visits to manufacturers of plastics. The meter is complete in every detail. It registers accurately. Just enough of its parts are of polished metal to give the clearest visual effect.

The March of Events

In General

Water Power Study Asked

FULL and complete examination and survey of all the rivers and tributaries in New England, including those in Connecticut, by the War Department Engineers to determine "the full potentialities of such rivers for the generation of electric energy and the feasibility of an accelerated program for the hydroelectrification of such states" was asked in a bill which was recently introduced by Representative Edith Nourse Rogers, Republican, Massachusetts.

Mrs. Rogers said she wanted the power potential investigated to prevent recurrent brown-outs in view of possible future coal strikes, and also as a possible means of bringing lower electric rates. She said it was not her idea that the government should undertake the power development at any potential sites listed by the Army Engineers but that private enterprise do the job.

Project Repayment Histories

THE Bureau of Reclamation recently issued a report entitled "Project Repayment Histories and Payout Schedules." The report includes the facts and figures for 65 projects which will cost an estimated $1,800,000,000 when all are completed. Approximately one billion dollars already has been expended by the Federal government on these projects.

The records show that a total of $352,400,000 invested by the United States in irrigation systems will be repaid by water users. An additional $473,315,215 of the irrigation investment will be repaid from power revenues. Another $546,190,029 invested in power systems will be repaid from power revenues. The remaining costs allocated to flood control, navigation, or which have been removed from repayment schedules by congressional acts, are not reimbursable. Commissioner Straus said:

> The vast investment of the United States in these projects is covered by a complexity of laws which specify the conditions for repayment of the moneys appropriated for reclamation projects. The bureau has had 295 repayment contracts with water users' organizations covering the $352,400,000 which is to be repaid by them. Sums due the United States under 80 of these contracts, principally those made for the sale of surplus water in storage reservoirs, have been paid in full. Payments are now being made on 177 contracts. There are 38 contracts for projects just completed or still under construction, where payment has not yet commenced.

Water users have repaid a total of $74,838,673, which is 97.6 per cent of the amount that had become due under the contracts to June 30, 1946. Total net power revenues, some of which have assisted in meeting the payments due from water users, have amounted to $38,718,414.

First U. S. Gasification of Coal Test Made

AN Army incendiary bomb recently was lowered through a hole drilled beneath the surface of a seam of coal at the Gorgas mine of the Alabama Power Company, near Birmingham, Alabama, and within a few hours an intent group of scientists witnessed the first controlled demonstration in this country of the underground gasification of coal.

The experiment was conducted jointly

by the power company and the United States Bureau of Mines. It was said to have more than ordinary significance for many in the coal and gas industries, as well as for many users of these and other fuels. It has been pointed out by those who have studied Russian experiments of the same kind, and who have held high hopes for the process here, that, at the very least, underground gasification offers a revolutionary method of producing useful, low-cost energy from surface deposits of coal and lignite which, up to date, have gone unexploited.

L. M. Smith, vice president of Alabama Power, who reported results of the initial tests, emphasized that only a bare start had been made in determining the characteristics of the process and the resulting fuel being obtained.

Alabama

South Honors T. W. Martin

THOMAS W. MARTIN, president of Alabama Power Company, has been selected the "South's Man of the Year," by *Dixie Business*, a quarterly magazine. In an article by Hubert F. Lee, editor, tribute is paid to the distinguished service rendered by Mr. Martin to the people of the state of Alabama and the South.

Mr. Martin is best known to the utility industry for his leadership in the development of hydroelectric power in Alabama. He has also been tireless in his efforts to build the South and has been a leader in the practical approach to the use of its natural resources.

Arizona

Commission Reopens Inquiry

THE state corporation commission recently reopened an inquiry into the rates and adequacy of service given patrons of the Eloy Light & Power Company, resetting the issue for public hearing February 21st.

Simultaneously the commission set February 28th as the date for a hearing on two complaints recently filed by Pinal County Electrical District No. 5, which ask that (1) the commission nullify the corporate status of Trico Electric Coöperative, Inc., an organization operating in Pinal, Pima, and Santa Cruz counties; (2) that it prohibit the contemplated purchase by Trico of the properties of the Eloy power firm, upon which it holds an option.

Interwoven into the situation is a fight between the co-op organization and the electrical district over the right to purchase the Eloy properties.

The issues were projected before the commission on February 1st when counsel for patrons of the Eloy firm called on the commission to revive an investigation of the Eloy firm's rates prior to the opening of the heavy pumping season, when ranchers and farmers get their biggest power bills.

California

Commission Rules against Coöperative

IN a decision of possible far-reaching significance, the state public utilities commission this month laid claim to jurisdictional powers over state-chartered nonprofit electric power coöperatives.

The commission handed down its ruling in issuing a cease and desist order in favor of the California Electric Power Company against Mesa Electric Coöperative, Inc., of Victorville, in San Bernardino and Los Angeles counties.

The power company sought the order to halt power line construction by Mesa, which obtained in June, 1946, a loan of $270,000 from the Rural Electrification Administration, to serve 348 customers in the Victorville area. The issue was one of whether the commission had jurisdiction over the coöperative.

Expects No Power Shortage

No power shortage, present or prospective, exists in northern California, A. Emory Wishon, vice president and general manager of the Pacific Gas and Electric Company, informed the Water Project Authority of California recently.

In a letter to C. H. Purcell, chairman of the authority, he called "erroneous" a recent statement by Richard L. Boke, regional director of the Bureau of Reclamation at Sacramento, that "recent events point toward a developing power shortage."

While there has been some deficiency in rainfall on part of the Pacific Gas system, in other parts it is above normal, Mr. Wishon said. The range is from 62 per cent of normal in the northern end of the territory to 128 per cent in the south. With half the usual season's rainfall still ahead, he said, "there is nothing in the situation to give serious concern at this time."

Commissioner Appointed

Kenneth Potter of Fresno on February 3rd was appointed by Governor Warren to fill the vacancy on the state public utilities commission caused by the recent resignation of Frank W. Clark.

Potter is a professor of economics and history at Fresno State College. He is a University of Michigan graduate and also took graduate work at the University of California in public administration.

His term will end January 1, 1949. The appointment has been confirmed by the state senate.

Indiana

Court Reverses Ruling

The state supreme court has reversed a Randolph County Circuit Court decision which denied jurisdiction of the state public service commission over the operation of the Panhandle Eastern Pipe Line Company. The court held that, because operation of the Panhandle Company vitally affected the interests of the state, the commission had the right to regulate service and fix rates.

The circuit court decision was handed down May 11, 1946, and the commission and six Indiana utility corporations immediately appealed the ruling.

The decision was reversed and instructions were given to the circuit court to enter judgment denying relief to the Panhandle Company from regulations by the commission. The opinion was unanimous and was written by Howard S. Young. Judge James A. Emmert did not participate in the decision.

Kansas

New Franchise Approved

City commissioners recently approved a new franchise with the Gas Service Company which will net Topeka more than a million and a quarter dollars during the 20-year life of the agreement. The contract provides the city receive 5 per cent of the Gas Service Company's domestic gross revenue and 1 per cent of the industrial gross yearly.

On the basis of the company's gross business during 1946, the new franchise will pay approximately $67,500 annually into the city's general fund. The contract is effective January 1, 1947.

Kentucky

Power Authority Urged

A KENTUCKY power authority, similar in essential respects to the Tennessee Valley Authority, may be created to produce more and cheaper electric power for rural and urban users in the state.

The possibility was considered seriously at a 2-day conference, held at Louisville late last month, of representatives from TVA, Rural Electrification Administration, Department of Interior, and East Kentucky Rural Electric Coöperative.

Salient points in the plan were released by H. Curtis Brown, Brandenburg, president of the Kentucky Association of Rural Electric Coöperatives; W. C. Dale, Shelbyville, president, and Sam J. Hord, Somerset, vice president, East Kentucky Rural Electric Coöperative, comprising 18 local REA's.

The plan was said to be in the discussion stage, pending final report of a survey of the Kentucky power situation by Burns & McDonnell, utility consultants. The power authority could be created by Federal legislation, state legislation, or a combination of both. If it is decided to rely upon Federal legislation, this Congress will be asked to enact it. If state legislation is decided upon, the bill will be presented to the 1948 legislature.

Sliding-scale Plan Proposed

CITY representatives were recently reported hopeful for an early discussion with the Louisville Gas & Electric Company of a plan for a sliding scale of electric rates the city has proposed to the utility.

The plan suggests that rates in one year be based on an agreed percentage of earnings in the previous year. Mayor E. Leland Taylor wrote to T. Bert Wilson, company president, that the plan "would avoid constant litigation which is expensive both to the company and to the city."

Wilson said the company at the time had no comment to make on the proposal. No date for a meeting of city and company officials had been set.

Public Service Commissioner Jesse K. Lewis has recently declared that LG&E rates were so excessive in 1944 and 1945 that it had to pay some $5,000,000 in Federal taxes on its excess profits. Lewis, a Democrat, refused to sign an order issued January 25th by Chairman Charles E. Whittle and Commissioner Cass R. Walden, Republicans, in Louisville's two-year-old rate reduction complaint against the utility, and on February 3rd filed a sharply worded minority opinion in the record.

Maryland

Bill Curbs Utility Strikes

A BILL to curb strikes by employees of Maryland public utilities, with authority vested in the state public service commission to take control of any utility whose operation is halted or curtailed by a labor dispute, was introduced in the state senate on February 5th by Senator Stromberg, Democrat of Howard county.

Senator Stromberg's bill would apply to all firms under jurisdiction of the state commission, and sets forth that employees are entitled to fair wages and proper working conditions. It would be unlawful for any employee of a utility, or any other, to conspire to quit work or urge others with the purpose of suspending or curtailing utility operations.

In event a dispute exists, the bill sets forth, the commission would be empowered to investigate the causes and hand down necessary orders for settlement. If the commission fails to reach a decision satisfactory to both parties, the governor could be asked to name a 3-man arbitration board. The board's recommendations would be binding.

Minnesota

Natural Gas Tax Bill

A TAX of 7 cents a thousand cubic feet of natural gas piped to Minnesota, estimated to raise $4,000,000 new revenue annually, was proposed in a bill introduced in the state legislature recently. It would divide the receipts one-third to the state educational aid fund and two-thirds to the general revenue fund.

Two years ago a similar measure was killed by the house tax committee, it was reported.

Missouri

Would Prevent Penalties

PUBLIC utilities would be prevented from charging penalties for delayed payment of consumers' bills under a proposal introduced this month in the state legislature by Representatives Thomas J. Gavin of Kansas City and Robert M. Uxa of St. Louis, both Democrats.

The proposed legislation would allow the utilities to offer a discount for early payment.

Nebraska

District Assessment Urged

PROPERTY of public power districts would be assessed the same as property of private persons and firms under a bill introduced recently by Senator Henry D. Kosman, Omaha. At present public power districts pay in lieu of taxes an amount equal to the taxes paid by the power companies just prior to the time they were taken over by a power district.

Kosman's bill provides they are to be assessed in the same manner and procedure "as the *ad valorem* tax levied on any privately owned property and shall be subject to annual review by such assessing bodies."

A bill introduced by Senator Hern would authorize public power and irrigation districts to sell to nonprofit corporations electric generating plants and distribution systems.

New York

Congress Asked to Speed Seaway

THE need for the St. Lawrence seaway project has been demonstrated "by every engineering and economic test," the New York State Power Authority declared recently in calling for prompt action by Congress to authorize development of this international waterway.

The request was embodied in the authority's annual report which characterized the project, designed to link the Great Lakes and the Atlantic for navigational purposes and to provide cheap hydroelectric power, as "comparable in its potentialities to such major public improvements as Boulder dam and the Panama canal."

The authority's report was submitted under the chairmanship of Major General Francis B. Wilby, picked by Governor Dewey for the post last winter. Approached in this light, it was said the report could be taken to reflect the views of the governor.

Also considered significant in connection with the report was the fact that it came but a few days after Governor Dewey had recommended in his budget message that the authority's funds for the coming year be raised $150,000.

Pennsylvania

Pittsburgh Union Loses

THE decision of the chairman of the board of arbitration in the recent controversial Duquesne Light Company labor dispute has resulted in a victory for the company on most of the major points at issue. Since the industry member of the board, Maurice R. Scharff, was expected to go along with the chairman, this decision will probably mark the end of a case which led to the 27-day Pittsburgh power strike—the longest and most serious utility work stoppage in recent years.

Chairman George E. Strong roundly denounced the union (whose chairman, George L. Mueller, was also labor member of the board of arbitration) for its lack of responsibility in carrying out its agreement renouncing strikes. Strong's opinion also denied to the union: (1) a uniform master contract to supersede 9 unit contracts now in effect; (2) the inclusion of supervisors and foremen receiving less than $500 a month within the unions; (3) deduction of union assessment and dues except as provided in the existing contract; (4) a union shop ("this union does not qualify . . . in its desire for more power, more dues, more assessments, more initiation fees, and greater security"); (5) time and a half for travel time between parking lot and plant; (6) employee profit sharing, retroactive prior to January 1, 1947.

Increased wages calculated to restore employees as of November, 1946, to the buying power level of January, 1941, were allowed with a forecast by the chairman that living costs would probably decline in 1947 ("we have passed the pinnacle of postwar inflation and have about readjusted to the deterioration of quality during price control"). A wage reopening clause allowing either party to seek further adjustment after August 1, 1947, was approved. The union's argument that utility employees were entitled to better wages because of their greater service obligation was rejected by the chairman because of the employees' record for actually engaging in a strike. While the union's proposal for a pension to be paid entirely by the company was found by the chairman to be "too expensive," this particular item was left open to further study and negotiation.

Texas

Natural Gas Rates Cut

THE San Antonio public service board recently ordered the gas rate to householders in that city reduced 5 cents per thousand cubic feet, effective in all buildings after March 1st.

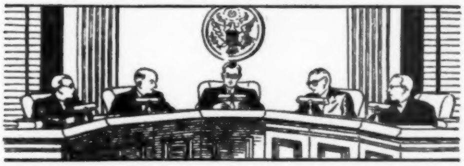
The reduction came after a new gas contract was signed by the board with the United Gas Pipe Line Company, whereby the city buys the gas 5 cents lower than formerly. The new contract is for a period of fifteen years, beginning January 1, 1947.

The new contract also calls for the erection of a $4,700,000 20-inch gas supply line into San Antonio to augment the 3-line system that now serves the city.

Utility Antistrike Bill

A BILL to outlaw strikes or sabotage against electric, gas, and water utilities in Texas was scheduled to be introduced in the state legislature this month by Representative Claud H. Gilmer of Rocksprings.

His proposal would make it a felony offense, punishable by two to five years in prison, for any person to damage wilfully or destroy public utility properties, and would prohibit picketing, intimidation, or other interference with employees who want to work. Gilmer's bill would protect both private and municipal utilities and such state agencies as the Lower Colorado River Authority.



The Latest Utility Rulings

Greater Strength to Resist Public Power Not an Objection to Merger

A MERGER of the facilities of Northwestern Electric Company and Pacific Power & Light Company was approved by the Federal Power Commission, notwithstanding objections by public power advocates. The Bonneville Power Administrator had filed a brief and interveners had argued that the merger would tend to defeat the realization of the basic purposes of the Bonneville Act.

The Northwest is the scene of a conflict between public and private operators. It was said to be apparent that the real basis of objection was to be found in the fear that those who favor private operation would be strengthened by the merger.

But, the commission said, the Federal Power Act does not contemplate recognition of this as a ground for denying approval. It must be presumed that the purpose of any regulatory act is to assure more adequate and economical service by the companies subject to its provisions.

Nor, it was held, should the merger be disapproved because the companies did not make a definite commitment as to future rate reductions. Rates of the surviving company would be subject to regulation.

The commission again stated its intention to follow the rule laid down in Pacific Power & Light Co. *v.* Federal Power Commission (1940) 34 PUR(NS) 153, 111 F2d 1014, that the phrase "consistent with the public interest" does not mean a public benefit or require promotion of the public interest. Compatibility with public interest is sufficient. It must be shown that a merger will not result in detriment to consumers or investors or to other legitimate national interests. When the statutory standard has been complied with, the commission held, there exists a substantive right to have commission approval.

Some witnesses testified that they were afraid that the merger might afford a basis for increased severance damages in pending condemnation proceedings. The companies were willing to stipulate that no greater claim for severance damages would be made in pending actions, and the commission conditioned its approval order on a stipulation to that effect. *Re Northwestern Electric Co. et al. (Opinion No. 146, Docket Nos. IT-6000, IT-5998).*

Reduction in Cost of Gas Passed on To Consumers

THE Georgia commission prescribed new rate schedules for the Atlanta Gas Light Company in order to pass on to ultimate consumers the amount of reduction in cost of gas to be realized by the utility as the result of revised

wholesale rates filed by Southern Natural Gas Company and accepted by the Federal Power Commission. The state commission was opposed to the form of wholesale rates established, but it tried to work out a plan of local rates which would meet the situation.

Prior to the revision of wholesale rates all gas sold to the utility was billed on a commodity basis. The applicable rate depended on the ultimate use of gas. The new rate contained a demand charge of $1.40 per thousand cubic feet per day for firm gas plus a commodity charge of 11 cents per thousand cubic feet for all firm gas delivered. In addition, a dump or interruptible rate of 14 cents per thousand cubic feet without a demand charge had been established for all interruptible gas delivered.

Under the new rate the Atlanta Company had paid about $43,000 more from May to November, inclusive, than would have been paid under the former rate. Some offsetting reduction was expected during the winter months.

The state commission did not feel that it was necessary to follow the rate pattern of the Federal Power Commission, but it thought that rates should cover the cost of gas purchased with some margin to provide for distribution expense. The Atlanta Company proposed a dump rate schedule for large industrial use of gas with a demand charge applicable to all gas delivered on a firm basis. This form of rate, said the commission, if reasonable in amount, is acceptable, but the fact that the Atlanta Company did not have enough gas to furnish firm gas requirements of its customers made this schedule a dump rate, a rate primarily for interruptible service.

In view of this situation it was the opinion of the commission that present contract rights of industrial consumers should not be disturbed until such time as gas supply is adequate. Present rates would be frozen for a period of one year, at which time the whole matter would be reviewed. Special provisions were made for space-heating consumers, educational and charitable institutions, and Federal housing projects.

The company proposed that customers failing to comply with a curtailment order should, for twelve months, pay a firm use charge based on a quantity of gas equal to the full volume of gas taken by the customer between the effective time of the curtailment order and the effective time of the next succeeding partial or complete restoration order. This was disapproved as an improper penalty. *Re Atlanta Gas Light Co. (File No. 19367-1, Docket No. 7863-A)*.

Ultimate Consumers Entitled to Funds Impounded in Wholesale Rate Case

An attempt by the Citizens Utilities Company to obtain part of the funds impounded by a Federal court during litigation over wholesale rates was blocked by the Colorado commission. The commission held that it had jurisdiction to award reparation to consumers of the local company and that they were entitled to the whole fund after deduction of expenses.

Rates of the wholesaler, Colorado Interstate Gas Company, were reduced by the Federal Power Commission and its order was sustained by the Supreme Court in Colorado Interstate Gas Co. *v.* Federal Power Commission (1945) 324 US 581, 58 PUR(NS) 65. The commission's order had been stayed pending the appeal on condition that it deposit the difference between rates charged to distributing companies and the new lowered rates. The impounded funds included about $176,000 on account of excessive charges to Citizens Utilities Company.

This company proposed to distribute one-half of its share of impounded funds to customers and to devote the remaining half, less additional income taxes, to replacing gas mains and service connec-

tions. It was shown that a peculiar soil condition existed which caused rapid deterioration of gas pipes. Past depreciation allowances had been inadequate.

The commission ruled, however, that even if the company could show definitely what the correct depreciation rate should be, customers should not now be penalized by having to make up for the past inadequacies.

The company, subsequent to the order of the Federal Power Commission, had voluntarily reduced rates. This, in the opinion of the state commission, amounted to an admission that the rates assessed and collected during the impoundment period were excessive and unreasonable. Moreover, figures presented showed an average return of more than 6 per cent.

Written statements by public officials, service clubs, and individuals supporting the company's proposal to divide the fund were disregarded. It was suggested that, if the communities had been fully advised, the signed requests might not have been procured. Even though there was no opposition, the commission must protect the rights of customers. *Re Citizens Utilities Co. (Decision No. 27319, Case No. 4932).*

Employment of Securities Dealers to Solicit Stock Exchanges Authorized

THE Securities and Exchange Commission authorized the Middle West Corporation, the Central & South West Utilities Company, and its subsidiary, American Public Service Company, to employ securities dealers to solicit exchanges of the publicly held preferred stock of Central and American for common stock of a company resulting from the merger of these companies. It was pointed out that the declaration was designed to facilitate consummation of a plan which the commission and the district court had approved.

The exchange of a large percentage of publicly held preferred stocks would have a direct bearing on the price which might be bid for new common required to be sold to retire preference stock not submitted for exchange. The greater the number of exchanges, the commission said, the less common stock would have to be underwritten, and the lesser degree of risk would be reflected in a higher bid.

The securing of a satisfactory price was essential to the fairness and feasibility of the plan. Therefore, reasonable expenditures incurred in the solicitation of such exchanges would be proper. The amount of the proposed dealers' commissions was considered reasonable. *Re Middle West Corp. et al. (File No. 54-81, Release No. 7078).*

Rates Revised without Change in Over-all Return Allowance

THE Maryland commission permitted increases in gas and steam-heat rates of the Consolidated Gas, Electric Light & Power Company of Baltimore where proposed schedules were no higher than necessary to compensate for increased costs of rendering service. Lower rates were ordered for electric service in view of an increased return from electric operations. The commission refused to change its previous ruling that a return of not less than 5½ per cent and not more than 6 per cent is fair and reasonable.

The principal change proposed in the gas rate schedule covering domestic service was the introduction of a minimum charge of $1 per month. For this charge a consumption of 400 cubic feet is allowed in the city rate district. Such a charge was held to be reasonable in the light of costs, which have been clearly attribut-

able to the initial block of service.

The commission made findings (1) the company's merchandise operations are load building and utility in character; (2) a tax reduction effected through the company's refunding of bonds was nonrecurring and nonutility in character; and (3) the amount which the company had credited to depreciation reserve as equivalent to the tax reduction resulting from amortization of war emergency facilities under § 124 of the Internal Revenue Code was a proper operating expense. *Re Consolidated Gas, Electric Light & Power Co. of Baltimore (Case No. 4661, Opinion and Order No. 42921).*

Telephone Service Authorized for Clergyman's Residence

The Wisconsin commission authorized a telephone company to render service to a clergyman whose residence was in an area where the undertakings of two companies overlapped, even though the house was connected to the lines of the other company by facilities left by a previous tenant.

The clergyman introduced evidence to show that about two-thirds of his church members were served by the company from whom he sought service. The finding of the commission as to the need for the service was expressed in these words:

> The evidence herein is not sufficient to show that the rendition of such service . . . is not required by public convenience and necessity.

Commissioner Bryan dissented on the ground that the commission order should have required the utility to render service and not merely authorized it. *Melvin v. Wisconsin Telephone Co. et al. (2-U-2286).*

Other Important Rulings

An action by a colored passenger against a railroad for breach of contract based on his ejectment from a train while passing through a state requiring segregation of white and Negro passengers was decided by the United States Court of Appeals for the District of Columbia in favor of the passenger on the ground that the state statute requiring segregation was invalid as to interstate passengers. *Matthews et al. v. Southern Railway System, 157 F2d 609.*

The Vermont Supreme Court refused to allow court costs in its judgment dismissing on jurisdictional grounds the petition of a power company for authority to redevelop its river facilities and stated that costs are not allowable in a proceeding in which public convenience is involved. *Re Bellows Falls Hydro-Electric Corp. 49 A2d 561.*

In consideration of the petition of a dump truck owners' association for an increase in rates for motor transport, the Massachusetts Department of Public Utilities expressed the opinion that the mileage charges should be assessed for total and actual loaded miles of haul but left to the carrier the problem of determining the proper charges for delay or waiting time. *Re Dump Truck Owners' Asso., Inc. (DPU 7490).*

A lower court decision awarding a passenger the sum of $50 for lost baggage of greater value was reversed by the South Carolina Supreme Court, which held that the state commission's rule limiting the liability of a motor carrier for lost baggage to a flat sum regardless of the value of the package was invalid. *Kirby v. Carolina Stages, 40 SE2d 165.*

NOTE.—The cases above referred to, where decided by courts or regulatory commissions, will be published in full or abstracted in *Public Utilities Reports.*

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Titles and Index

TITLES

INDEX

NEW JERSEY BOARD OF PUBLIC UTILITY COMMISSIONERS

Re Jersey Central Power & Light Company

Docket No. 2503
November 26, 1946

APPLICATION *by utility for approval of revision of gas rates; modified increase approved.*

Valuation, § 410 — Qualification of witness.

1. Testimony as to accrued depreciation and the original cost rate base of a gas company is unacceptable where the witness has not examined the properties, is not an engineer, had no engineering assistance, and has never been employed by a gas utility in either an operational or managerial capacity, p. 133.

Expenses, § 9 — Future estimate — Relation to actual expense.

2, Mere expectancy as to the level of operating expenses a year or two hence cannot provide a basis for disallowance of operating costs actually experienced and not shown to be unreasonable, p. 134.

Expenses, § 9 — Estimates for future — Continued regulation — Flexibility.

3. A Commission need not speculate as to the level of operating expenses in future years in determining rates of a gas utility, since regulation is a continuing process and adjustments can be made to meet changed labor and maintenance costs, p. 134.

Rates, § 175 — Rate base and return — Findings.

4. No specific findings as to rate base or allowable return are necessary in a rate proceeding in which adequacy of return is not a significant issue, p. 135.

Rates, § 389 — Gas rates — Cost of service — Large volume use.

5. Proof that a gas company is not recovering the cost of service from large volume users, such as space-heating customers, affords a basis for establishing a revised level at which volume sales should be priced, p. 136.

Apportionment, § 30 — Operating expenses — Supervisory costs.

6. It is improper, where only a portion of the operating expense account of a gas utility is allocable to its volume sales, to assign the total amount of supervisory costs in the account to the volume component, since such costs should follow the allocation of items supervised, p. 137.

Rates, § 384 — Gas — Evidence supporting increase — Volume use.

7. A gas utility must present a thorough study and analysis showing the costs related to volume use to support its estimate as to the lowest rate at which gas should be sold to volume users, p. 137.

Rates, § 384 — Distribution of rate increase — Cost differences.

8. Additional revenue to which a gas company is entitled need not be

spread equally over all customers if there is considerable difference in the average price of gas paid by various classes of users, p. 138.

Rates, § 389 — Gas space heating — Conversion to gas — Reliance on low rates.

9. There is no merit to a contention by customers of a gas utility that since they converted to gas heat on the basis of low rates for volume use, a substantial rate increase would be inequitable, when costs of all types of fuel have increased to the extent that even at the proposed increased rate a gas consumer would be in a better position than a user of any other fuel, p. 138.

Rates, § 303 — Fuel clause — Gas.

10. A utility may reasonably introduce into its rate structure a fuel clause which provides for increases or decreases in price at which gas is sold by an amount equivalent to changes in fuel costs to the company, as such a clause not only affords the company protection against further increases in the prices of fuels, but also provides a vehicle for promptly passing on to customers savings resulting from any decrease in fuel costs, p. 139.

Discrimination, § 61 — Rates — Gas — Preference to volume users.

11. A rate schedule which does not provide reasonably adequate compensation from large volume users and permits unjust and unreasonable demands upon other users is inequitable and discriminatory, p. 139.

APPEARANCES: Joseph F. Autenrieth, for Jersey Central Power & Light Company; Harry R. Booth, Utilities Counsel, by Howard S. Guttman, Principal Trial Attorney, for Office of Price Administration, Washington, D. C.; Ward Kremer, for the city of Long Branch, township of Neptune, borough of Deal, borough of Allenhurst; Leo J. Warwick, for the city of Long Branch; Robert H. Maida, for the borough of Fair Haven; Joseph Silverstein, for the borough of Belmar; Harry Roeser, for the city of Ocean City; Solomon Lautman, for the borough of Deal; E. Alexander Edelstein, for the city of Asbury Park; Richard R. Stout, for the township of Neptune; Walter Fox, for the borough of Bradley Beach; Henry H. Patterson, for Ocean township.

The following appeared pro se: Alfred E. Freeman, Belmar, Frederick W. Newton, Brielle, Ralph Isham, Brielle, Ray A. Nellis, Sea Girt, Howard K. Stokes, Allenhurst, and Bruno H. Walter, Lakewood.

Frank H. Sommer and Daniel deBrier, Deputy Attorneys-General, for the Board.

By the COMMISSION: Jersey Central Power & Light Company (hereinafter referred to as "Company") filed a new tariff for gas service designated as P.U.C. No. 2, involving both increases and decreases in rates to become effective July 1, 1946. The new tariff, which consists of a single rate schedule applicable to all classes of service bearing the designation "Service Classification A—General Service," is intended to replace and supersede the existing tariff designated "P.U.C. No. 1" which contains six separate rate schedules, viz.:

G- 1—Seasonal and Yearly Gas Service
G- 2—General Gas Service
G- 3—House-heating Gas Service
G- 4—All-purpose Gas Service
G- 5—Seasonal and Yearly Gas Service
G-10—Seasonal and Yearly Gas Service

In the statement accompanying its filing, the Company represents the proposed schedule will accomplish the following results:

"1. The Company will then receive a fair and reasonable compensation for the gas sold for heating and large general purposes, and will be compensated for its present costs which greatly exceed the present rate levels.

"2. The Company will be enabled to meet the existing public demands for its gas service and will be encouraged to make the necessary changes and additions to its production and distribution facilities because the proposed rate will enable the Company to earn its cost of service from such additional gas sales.

"3. The proposed revision of rates will simplify the Company's rate structure and will enable it to sell gas to all types of consumers without discrimination and with a more fair and equitable distribution of the cost of gas service.

"4. The Company does not represent that the new proposed gas rate will enable it to earn a fair return on its gas investment, but does represent that it is now supplying a large percentage of its gas business at less than cost and that the new rate will permit the Company to sell gas without incurring any losses therefrom.

"5. The Company finally represents that gas for house heating and for large volume use is a competitive fuel and a premium fuel because it has advantages that are beyond the basic price comparison. All competitive fuels have increased substantially during the past year, whereas the Company's rates have remained unchanged. The Company believes that the increase in rates will not have any serious effect upon its competitive position, but that its gas business will continue to grow and expand under the proposed new rates."

The Company also represents that the proposed new tariff would have the effect of increasing annual gas operating revenues by $141,487, to a total of $3,526,744; and further that while the proposed rate would decrease the bills of some customers and increase the bills of others, the bulk of the decrease will go to customers now served under Rates G-1, G-2, G-5, and G-10, and that increases will be experienced in the main by house heating, water heating and other large volume users now served under Rates G-3 and G-4.

By orders dated June 11, 1946 and August 13, 1946, the Board suspended the proposed rate revision pending hearing and determination.

Description of Applicant and its Facilities

Jersey Central Power & Light Company came into existence on March 27, 1925, by the consolidation of a number of electric and gas companies, some of these predecessor companies having commenced business prior to 1900. The Company provides gas service in parts of Morris, Monmouth, Ocean, and Cape May counties. During the year 1945 the Company, on the average, served approximately 62,850 gas customers per month.

The Company operates water gas production plants in Dover, Long Branch, Belmar, Toms River, Ocean City, and Wildwood, as well as a liquified petroleum installation at Peahala, Long Beach township.

The Company also has thirty-nine storage holders.

The distribution facilities consist of approximately 1,050 miles of main ranging from ¾-inch to 24 inches in diameter.

The Company supplies gas in five distinct service areas, which are not interconnected by pipe lines. Each service area is served from separate production facilities, viz.:

The Long Branch or Coast Division which extends from Red Bank to Point Pleasant and Lakewood, and includes such cities as Asbury Park and Long Branch, is supplied from the Long Branch and Belmar plants.

In the Southern Division, Ocean City, Sea Isle City, and Townsend's Inlet are supplied from the Ocean City plant and Wildwood, Cape May, Cape May Court House, Stone Harbor, and Avalon are supplied from the Wildwood plant. The Ocean City and Wildwood plants are not interconnected by pipe lines.

The Northern Division includes Dover, Wharton, Denville, Mountain Lakes, Boonton, and Lincoln Park and is supplied from the Dover plant.

Toms River, Beachwood, Bayville, Forked River, Barnegat, and Tuckerton are supplied from the Toms River plant.

The Company also operates a butane plant at Peahala, which supplies the area on Long Beach Island from Beach Haven to Surf City.

Return on Investment in Gas Facilities

The Company took the position that the matter of adequacy of return on its gas business as a whole was not an issue in this proceeding, asserting in this respect that it was not earning a fair return on its investment, and that the proposed rate was not designed to produce a fair return. In support of its contention in this respect, the Company offered Exhibits P-16 and P-32. Exhibit P-16 which was prepared and introduced in evidence by Ralph Hoey, comptroller of the Company, purports to indicate that the experienced rate of return, before Federal income taxes for the year 1945, was 2.42 per cent on an original cost rate base, and 1.75 per cent on an acquisition cost rate base. Exhibit P-32, which was prepared and introduced in evidence by Malcolm W. Davis, a consulting engineer employed by the Company, indicates that the rate of return after Federal income taxes for the year 1945, was 0.7 per cent, on what the witness designated as an historical cost rate base, and that the rate of return would be 1.3 per cent on this rate base, after giving effect to the estimated increase in revenue to be produced by the proposed rate at issue in this proceeding.

The original cost rate base stated in Exhibit P-16 at $10,373,047, was arrived at by using original cost ($13,487,903) of plant in service, and construction work in progress as at December 31, 1945, as a starting point. The book reserves for amortization and depreciation, aggregating $3,614,856, were then deducted and $500,000 added for working capital. Original cost is defined as the cost of the property to the person first devoting it to public service.

The acquisition cost rate base stated in Exhibit P-16 at $14,380,153, was arrived at by adding to the original cost rate base the sum of $4,007,106, which was asserted to represent the amount actually expended by the Company in arm's-length transactions for

acquisition of gas plant over and above the original cost of said plant.

The historical cost rate base, stated in Exhibit P-32 at $14,282,302, was developed in essentially the same manner as the acquisition cost rate base, except that it does not include construction work in progress, which amounted to $34,850 as at December 31, 1945, and included a lower allowance, for working capital, namely $437,000.

[1] Objection was interposed at the hearing to the Company's contention as to return hereinbefore stated. A calculation identified as Exhibit 0-5, introduced in evidence by Dr. John Bauer, who appeared as a witness in behalf of some objectors, purported to show that the rate of return under present rates is 6.01 per cent. This calculation admittedly reflected adjustments made by the witness to Company's Exhibit P-16. The witness's adjustments fall into two categories—those related to calculation of rate base and those related to establishment of amount available for return. In his rate base calculation, Dr. Bauer adopted as a starting point the lowest evidence as to rate base introduced on behalf of the Company, i.e., original cost. In so doing, however, he "rounded-out" the item of $13,487,903, to $13,400,000, explaining that he did not have the exact figures before him when his exhibit was being prepared. The other adjustment made to the Company's original cost rate base calculation shown in Exhibit P-16, related to the deduction for depreciation. In place of a deduction of $3,614,856, which is the actual amount of reserves for depreciation and amortization as at December 31, 1945, used by the Company's witness in his calculation, Dr. Bauer adopted as a depreciation deduction the sum of $4,690,000. Giving effect to these adjustments, he arrived at a rate base of $9,210,000, or $1,163,047 less than the original cost rate base as calculated by Mr. Hoey.

Dr. Bauer's first adjustment of $87,903 requires no further comment in view of his explanation of this error. In explanation of his depreciation adjustment, he characterized as inadequate the deduction by the Company's witness of the actual amount of reserves for depreciation and amortization which approximate some 27 per cent of the gross original cost of gas plant, further testifying:

". . . I can't conceive that a depreciation reserve to represent the full physical and functional depreciation as of December 31, 1945, could have been less than 35 per cent . . . ." (P. 671.)

Dr. Bauer arrived at his depreciation deduction of $4,690,000 by taking 35 per cent of $13,400,000, the figure he used as gross original cost of gas plant.

In determining the weight to be accorded the testimony of Dr. Bauer in this case, the Board must be mindful that Dr. Bauer, when cross-examined as to his qualification, admitted that he was not an engineer, that he had no engineering assistance in this investigation, that he had never been employed by a gas company, that he had never been engaged in the operation or management of a gas plant, and that he had not inspected or examined the Jersey Central Power & Light Company's gas properties. In answer to a question on direct examination

as to the average life he assigned to production plant, still on the general subject of depreciation deduction he testified:

"Well, there isn't any single recognized rule and there is a difference under different circumstances, and I have not examined this Company's properties specifically for this purpose, but for production plant in general a 4 per cent annual depreciation would be an amount that I think would be considered as reasonable usually, . . ." (P. 657.)

Furthermore, by his own admission, to the effect that the property should be properly examined, before making a depreciation estimate, and that proper examination and studies might take a year, he in effect relegated his own estimates as to accrued depreciation to the category of a mere conjecture unsupported by actual technical studies of the properties under discussion.

On the basis of the record in this proceeding the Board finds Dr. Bauer's adjustment with respect to accrued depreciation and, hence, with respect to the original cost rate base wholly unacceptable.

[2, 3] Dr. Bauer made two adjustments which affect the establishment of the amount available for return. The first involves a downward revision of actual operating expenses for 1945 by $135,000. In explanation of this adjustment he testified that he considered the 1945 expense level as abnormal. The witness did not specifically detail the manner in which he arrived at the amounts by which he considered various 1945 expense items abnormal. His adjustment in this respect reflects, rather, his general estimate of the amount by which he deems 1945 expenses abnormal based largely on his belief that 1945 expenses reflect extraordinary maintenance and on a prophecy that the level of 1945 labor costs would be substantially reduced by the end of 1947.

Here again, the witness by his own testimony imposed certain limitations upon the weight that can be accorded his expense adjustment:

". . . Now, I haven't, of course, gone over the plant and haven't made a study of my own nor haven't had engineering assistance in this matter, but in going over the records and over all these matters it seems to me rather inescapable that 1945 is extraordinary, . . . " (P. 645.)

Examination of the Company's reports on file with this Board, and made part of the record in this case covering the operating expenses for the first nine months of 1946, does not reflect any over-all reduction in operating expenses from 1945 levels or any reduction in production maintenance and labor costs, which items Dr. Bauer specifically criticized in connection with his adjustment of operating expenses. Mere expectancy as to the level of operating expenses a year or two hence cannot provide a basis for disallowance of operating costs actually experienced and not shown to be unreasonable. However, there is no need to speculate as to the level of operating expenses either at the end of 1947 or in succeeding years. Regulation is a continuing process and if in the future labor and maintenance costs are lower than present levels, the situation can and will be reëxamined by the Board in the light of conditions then existing.

Dr. Bauer's second adjustment, which affects the establishment of the amount available for return, relates to the annual provision for depreciation. The amount available for return for the year 1945 as set forth in Exhibit P-16 is after a deduction of $514,045 for annual provision for depreciation. The witness believed that this provision for depreciation was excessive and resulted in understatement of the amount available for return. He testified that an adequate provision for annual depreciation would lie in the range of 2 per cent to 2½ per cent of original cost of gas plant account. Stated in dollars, Dr. Bauer placed the reasonable annual provision for depreciation in the range from $270,000 to $337,000.

Comments hereinbefore expressed with respect to the weight to be accorded to this witness' testimony on depreciation, in the discussion of his proposed adjustment for accrued depreciation, apply here with equal force. The Board, however, finds it unnecessary to the disposition of this matter to pass upon the reasonableness of the annual provision for depreciation, for even if the lowest estimate of the witness as to annual depreciation is accepted, the indicated rate of return before Federal income taxes becomes 4.78 per cent on the lowest acceptable evidence as to rate base, i.e., the original cost rate base reflected in Exhibit P-16. Additional revenues expected to result from proposed rates, adjusted only for the effect of taxes related to revenues and income, would increase the rate of return on the original cost rate base by approximately 0.8 per cent.

[4] In view of the foregoing, the Board agrees with the contention of the Company, that adequacy of return on the gas business as a whole is not a significant issue in this case and, therefore, no specific findings as to rate base or allowable return are deemed necessary for disposition of this matter.

Reasonableness of Proposed Rate

The proposed new rate may be summarized in this form:

First 400 cubic feet or less per month	$1.00
Next 2,600 cubic feet per month	.15 per 100 cu. ft.
Next 7,000 cubic feet per month	.09 per 100 cu. ft.
Over 10,000 cubic feet per month	.07 per 100 cu. ft.

While this rate carries monthly minimum charges ranging from $1 to $10 per month, dependent upon the capacity of the meter required to serve the customer, the great bulk of the customers will be subject to the $1 monthly minimum charge.

For customers connected during the seasonal period between April 1st and September 30th each year, the charge for the first 400 cubic feet of gas is increased from $1 to $2. If customers connected between the aforesaid dates take service continuously from the date of connection to the first meter reading of the next calendar year, they are to be considered annual customers and their accounts will be retroactively adjusted from the date of connection by rebilling on the all-year basis. Otherwise, there is no difference in the charges to seasonal and all-year customers.

The rate also includes a fuel adjustment provision which pursuant to the statement accompanying the filing is to be applicable only to the use of gas

in excess of 3,000 cubic feet per month.

The service connection and ledger transfer charges of $1 now applied under the existing rate schedules, other than rate G-3, are eliminated in the new tariff.

Thomas R. Dobson, vice president of the Company, explained the purpose of the proposed new rate as follows:

". . . I might say that it was not the Company's purpose to increase its revenue primarily by this rate change. Obviously, if we were to attempt to increase our revenue to get anything near a fair return on the rate base we would reach the point of diminishing returns and simply kill off the gas business. . . ."

"Now, that is the Company's reasoning behind its application for this type of rate. First, to compensate us for volume sales and, second, to eliminate a present rate situation which is not healthy to the Company or from a public standpoint." (P. 112.)

[5] The lowest rate at which gas is now being sold to large volume users, which category includes space-heating customers, is fifty cents per thousand cubic feet. In the proposed tariff, the lowest rate is established at 70 cents per thousand cubic feet. Mr. Dobson produced in evidence a calculation designated as Exhibit P-9 in support of his contention that the Company was not now recovering from volume users the cost of serving said users, as well as in support of the lowest rate for the sale of gas established in the proposed tariff. This calculation purported to represent an allocation of costs of providing service into two categories; those costs which are related to volume of use—designated as volume component, and those costs which are related to the number of customers served—designated as customer component. On the basis of the volume cost component for the year 1945 of 67.2 cents per thousand cubic feet as indicated by his calculation, Mr. Dobson reached the conclusion that 70 cents per thousand cubic feet was the lowest level at which the Company could now sell gas for any purpose. The witness made no specific use of his calculated results as to customer component. Exhibit P-9 also showed the results of Mr. Dobson's calculation as to volume and customer components for the years 1935 and 1940.

Obviously, if it clearly appeared from the proofs that the calculations in Exhibit P-9 were fundamentally sound and accurate, it would afford a basis for establishing the lowest level at which volume sales should be priced. The determination, therefore, of one of the the most significant issues in this case rests largely upon the validity of the calculations in Exhibit P-9.

The results of Mr. Dobson's calculation as to volume component for 1935, the year when the present 50 cents per thousand cubic feet price level for heating service was established, appear to cast considerable doubt as to the over-all soundness of the calculations reflected in Exhibit P-9. Mr. Dobson calculated the volume component for 1935 exclusive of direct taxes at 53.4 cents per thousand cubic feet. After allowance for direct taxes as reflected in the Company's 1935 annual report, the latter item would become approximately 59 cents. This figure would then be comparable

with Mr. Dobson's calculated volume cost component for 1945 of 67.2 cents per thousand cubic feet. Bearing in mind Mr. Dobson's contention that his calculation as to volume component purported to establish the lowest rate at which gas can be sold, it is rather difficult to reconcile his 1935 volume cost component with the voluntary establishment by the Company of a 50 cents per thousand cubic feet rate level in 1935. In discussing the establishment of the 1935 rate level, Mr. Dobson testified:

". . . They also at the same time instituted a hard-hitting, strong-pushing house-heating sales department . . . ." (P. 93.)

It is well known that the Company continued to actively promote house-heating sales until the advent of wartime restrictions affecting such activities. It is also interesting to note that the 1935 volume component as calculated by Mr. Dobson does not include the costs of instituting the aforementioned hard-hitting, strong-pushing gas house-heating sales department. Under these circumstances, to accept as valid Mr. Dobson's calculations, is tantamount to an assumption that the Company for a period of approximately six years continued to actively promote gas house-heating business at a loss. If there is any basis to support such an assumption it is not disclosed by the record in this case.

Further analysis of the calculations reflected in Exhibit P-9 and of related testimony offered by its sponsor, Mr. Dobson, indicates that to a very substantial extent the validity of the calculations are dependent upon the reasonableness of assumptions employed by him in making assignments of costs to volume component. In this connection, it appears that in several instances the witness made cost allocations to volume component on the assumption that the costs varied in direct proportion to volume of gas produced, whereas he admitted on cross-examination that the relationship was other than a direct proportion.

[6] It also appears that in some instances where only a portion of an operating expense account was deemed allocable by the witness to volume component he, nevertheless, assigned the total amount of supervisory costs in the account to volume component. This is manifestly an improper treatment, since the supervisory costs in question in any allocation should obviously follow the allocation of the items supervised.

[7] It further appears that the calculations in Exhibit P-9 were not based upon a thorough study and analysis to determine the costs which, under the circumstances in this case, are related to volume of use and the extent and character of such relationship. This was frankly admitted by Mr. Dobson on cross-examination (pp. 87, 88).

In view of the foregoing the Board finds that the calculations in Exhibit P-9 do not provide an adequate basis for determining the lowest rate for the sale of gas; and, that on the record as a whole, the Company has failed to convincingly establish or reasonably support its contention that 70 cents per thousand cubic feet is the lowest rate at which gas should be sold in this Company's service area.

It does appear from the record, that rates for house heating and other volume sales, here sought to be increased,

are in a category which now contribute least to operating income. It also appears that the margin between average production costs and the price at which gas is sold to volume users under present rates has been substantially narrowed in the period from 1935 to 1945. The amount by which this margin has decreased is approximately 10 cents per thousand cubic feet. Hence, under the circumstances in this case, it is the opinion of the Board that there appears to be reasonable support in the record for lifting the minimum rate level from 50 cents per thousand cubic feet to only 60 cents per thousand cubic feet. Such an increase, while substantially less than requested by the Company, would appear to reasonably meet what was termed by Mr. Dobson as to the Company's primary objective in filing the rate here at issue.

Q. Would you say that primarily the adjustment in rates is to recover the increased costs in the large volume services?

A. That is the sole purpose of the Company's position. (P. 56.)

[8] The Board does not agree with the contention of some of the objectors that if the Company be found entitled to additional revenues, that such additional revenues be spread equally over all customers instead of following the Company's proposal which confines increases largely to volume users.

This contention does not recognize the wide difference in average price for gas paid by various classes of users. Large volume users for a considerable portion of their use of service now pay approximately 50 cents per thousand cubic feet, which is only slightly more than 1945 average production cost of 49.9 cents per thousand cubic feet. However, most of the small customers are, under existing rates, paying approximately $1.50 per thousand cubic feet.

[9] A further contention advanced by the objectors is of particular interest and is quoted herewith:

". . . There is, first, the question of justice to the many people who have made gas heating installations and who would be required to pay much higher rates than they had expected to pay, and who had been practically assured that they would not have to pay higher rates in the future. Can the Company justly build up a business by promises, and then go back on its promises and exact much higher rates?"

With reference to this point, it would appear that the Company could hardly have been expected to foresee in 1935 the very substantial increase in the cost of producing gas that has taken place since 1935 when the present rate level was established. In addition, it is well known that the price of competitive premium heating fuels, such as oil, have increased approximately 50 per cent since 1935. During this period gas house-heating customers enjoyed stable heating costs. It is evident that customers who selected gas as a heating fuel prior to the war would now be in a substantially more favorable relative position with respect to alternative heating fuels, even after giving effect to an increase in the minimum rate level from 50 cents per thousand cubic feet to 60 cents per thousand cubic feet.

Mr. Alfred E. Freeman, an objector who operates a ladies' undergarment plant at Belmar and who uses

gas for general and heating purposes, presented testimony which related to alleged service interruptions at his plant some five years ago, as well as with respect to alleged discrimination on the part of the Company in furnishing service under a special contract to a large user in the Dover area at rates lower than available to other volume users. From the record it would appear that the first issue raised by Mr. Freeman is not germane to the issues involved in this proceeding and, consequently, will not be dealt with in this decision. As to the issue of discrimination raised by Mr. Freeman, it appears that the record does not support his contention. As a matter of fact, the record discloses that if Mr. Freeman's use of service was billed under the terms of the aforementioned special contract his cost for gas service would have been substantially higher. In any event, the special contract is no longer in effect and, hence, any question as to alleged discriminatory features of its provisions are of no special significance at this time.

The other reason for the filing of the proposed rate, heretofore referred to generally in the quotation from Mr. Dobson's testimony at page 112 of the record, is explained more fully in the following excerpt of the Company's statement accompanying its filing:

"The Company also faces a situation with its seasonal and optional yearly rates which is unhealthy, in that these seasonal and optional yearly rates are lower than its general gas rates for certain small use customers. The seasonal and optional yearly rates are higher than the general gas rates for larger consumptions and yet customers will grow in use without requesting or being automatically transferred to the lower rate." (Page 10 of statement accompanying filing.)

It would appear from data reflected in Exhibits P–11 and P–12 that the proposed substitution by the Company of a single rate for the six separate rates now in effect will correct this situation.

[10] The Board finds that it is not unreasonable for the Company to introduce into its gas rate structure a fuel clause which provides for increases or decreases in the price at which gas is sold by an amount equivalent to changes in fuel costs to the Company. Fuel costs represent a very substantial portion of total production costs. While such a fuel clause affords the Company protection against further increases in the prices of fuels, it also provides a vehicle for promptly passing on to customers savings resulting from any decrease in fuel costs.

[11] In view of the foregoing, the Board finds and determines.

(1) that the existing schedule of rates is unjust and unreasonable in that it does not provide reasonably adequate compensation from large volume users and permits unjust and unreasonable discrimination as between certain other users;

(2) that the proposed schedule of rates as filed is unjust and unreasonable and approval thereof is hereby denied;

(3) that an increase in annual gas operating revenues of $141,487 will not produce an excessive return.

Accordingly, the Board *orders* that the Company shall submit for the consideration of the Board within thirty days from the date hereof of a revised schedule of gas rates establish-

ing a charge of not more than 60 cents per thousand cubic feet for use in excess of 10,000 cubic feet per month, and designed to provide on the basis of 1945 sales a revenue increase of not more than $141,487 per annum.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Re Northwestern Bell Telephone Company

Report F-2166
December 27, 1946

APPLICATION *of telephone company for authority to adjust rates and charges for telephone exchange services within the state; granted.*

Service, § 47 — Duty of Commission.

1. The Commission must see that reasonable, adequate, and efficient telephone service is furnished, having in mind conditions existing at the time, p. 145.

Service, § 117 — Duty to serve — Telephone company.

2. A telephone utility has the legal obligation, within the limits of its financial ability, to furnish adequate, dependable, and efficient service to the people of the state, p. 145.

Rates, § 538 — Telephone — Statewide grouping.

3. Rates of a telephone company, based upon a statewide grouping method whereby cities and towns having similar service characteristics are placed in the same service and rate category, are fair, just, reasonable, and nondiscriminatory, both from the standpoint of services available and used and the cost of service per station, p. 146.

Return, § 111 — Telephone company.

4. A return of 2.12 per cent on average investment in telephone plant and working capital, or 3.21 per cent if the entire depreciation reserve balance be deducted, falls considerably below the fair and reasonable rate of return allowable, p. 146.

Rates, § 538 — Telephone — Statewide grouping basis.

Description by South Dakota Commission of the statewide grouping basis of rate regulation, p. 146.

Rates, § 538 — Telephones — Statewide basis.

Rate schedules for integrated statewide telephone company, as approved by South Dakota Commission, showing exchange classifications and charges for such items as service connection, extensions, moves and changes, joint use, and supplemental services, p. 150.

Rates, 566 — Telephones — Transient hotels — PBX systems.
Rate schedule of telephone company for transient hotel and PBX systems as approved by South Dakota Commission, p. 151.

Rates, § 309 — Special telephone charges — Moves and changes.
Schedule of charges for moves and changes and other services of telephone company as approved by South Dakota Commission, p. 151.

APPEARANCES: W. R. Johnson and H. L. Frentress, both of Omaha, Nebraska, appearing for the Northwestern Bell Telephone Company; William Williamson, Assistant Attorney General, J. H. Hamilton, Engineer, and J. N. Peller, Statistician, all of Pierre, South Dakota, appearing for the Public Utilities Commission.

By the COMMISSION: In June, 1946, the Northwestern Bell Telephone Company, petitioner herein, by its representatives W. R. Johnson, vice president and general manager, and H. L. Frentress, general commercial manager, held a conference with this Commission at its offices in the state capitol, to review and point out the effect upon petitioner's operations in South Dakota of the increasing demands of the public for additional telephone service, and improvements therein, due to the recent sharp increase in petitioner's expenses brought about by mounting costs of labor, materials, and supplies used in the maintenance of petitioner's plant, providing additions, and in rendering public services. It was alleged by these representatives that the petitioner could not meet the problems arising from these conditions by a mere upward adjustment of its present rates and charges for service, and suggested a statewide basis for the adjustment of rates wherein the company's total telephone operations, both exchange and intrastate toll, would be considered as a unit for the purposes of rate regulation. They claimed that this would result in a better balance of the rate schedules among telephone exchanges and result in the maximum telephone development throughout the state. These suggestions were taken under advisement by the Commission and it directed its technical staff to make a study of the proposals submitted, and indicated that when these had been completed further conferences might be held.

Thereafter, other conferences were held by these representatives and the Commission during which times the service problems and financial status of petitioner, under current rates, charges, and level of operations were further explored and analyzed. Preliminary studies by the Commission and its staff indicated that additional revenues would have to be provided if petitioner's financial integrity were to be protected. The Commission then advised such representatives that before any action would be taken with respect to the matters discussed, a formal application would have to be filed by the petitioner setting forth in detail its financial status and containing certain other information desired by the Commission. In compliance with this request, the petitioner on December 12, 1946, filed its application, containing the information re-

quested, for authority to adjust its rates and charges for telephone exchange service furnished by it within this state.

From these conferences, from extensive accounting records of petitioner filed in the Commission's office both during and prior to the year 1946, from studies and exhibits made by its engineer, and from information supplied by the present verified application, checked and confirmed by its statistician and engineer, the Commission arrives at the following

Findings of Fact and Conclusions:

1. The petitioner, Northwestern Bell Telephone Company, hereinafter called the Northwestern Company is an Iowa corporation duly authorized and qualified to do business in South Dakota and is operating an integrated statewide telephone system in South Dakota consisting of both local exchanges and long-distance lines. It has local exchanges in 126 cities, towns and localities in this state rendering local or exchange service through 81,894 company-owned telephones.

In addition, it furnishes switching service for 475 associations and companies owning 671 rural lines connected to petitioner's exchanges and serving 8,849 rural customers.

The petitioner also owns and operates long-distance lines throughout South Dakota over which it furnishes long-distance telephone service or toll service between its exchanges and between its exchanges and exchanges of other telephone companies located in this state and has toll connections so that all these exchanges can be interconnected to other exchanges in the United States and in foreign countries.

Long-distance telephone and exchange service is furnished by petitioner throughout the state under the rates, rules, and regulations filed with and approved by this Commission.

2. The books and records of petitioner from the years 1913 to 1935 have been kept in accordance with the Rules and Regulations of the Interstate Commerce Commission and at all times since 1935 have been kept in accordance with the Accounting Rules and Regulations prescribed for telephone companies by the Federal Communications Commission.

3. Following the cessation of hostilities in August, 1945, there was and still is, throughout the entire state an unprecedented increase in demands upon petitioner for additional telephone service of all kinds; business service, residence service, rural service, and long-distance service.

The extent of the increased demands for service upon petitioner is best illustrated by comparing the period January 1, 1945, through October 31, 1946, with the war period immediately preceding. The number of petitioner's telephones increased from 69,745 on January 1, 1945, to 81,894 on October 31, 1946, or an average monthly gain of 552 telephones. The average monthly gain for this period is almost five times the average monthly gain in telephones experienced by petitioner for the preceding years of 1942 to 1944, inclusive.

In spite of these large gains in telephones there are now on file with petitioner, 2,143 orders for service which have not yet been filled from persons who are entirely without any telephone

service, including 1,286 for rural service, due to petitioner's lack of facilities.

The volume of long-distance business in South Dakota has also increased considerably the last few years. The average monthly number of toll calls originated in South Dakota and using petitioner's toll lines for the period April through September, 1946, namely 341,148, is almost two and one-half times the average monthly number of toll calls for the year 1942.

As a result of these sharp increases in service demands, the petitioner is now handling in South Dakota more business, toll and exchange, than at any other time in its history.

4. Although petitioner is now handling the largest volume of business, toll and exchange, in South Dakota, in its history, it alleges that its current intrastate operations are failing by a substantial amount to even cover expenses. This allegation of petitioner is so unusual in view of petitioner's increased volume of business that it warrants careful investigation by this Commission to determine if true and the reasons therefor. If found to be true, then the petitioner is entitled to prompt relief to protect its financial ability to render adequate and efficient telephone service to the people of this state.

5. From records on file in this Commission's office it is shown that petitioner's total telephone operations in South Dakota consisting of its intrastate operations, toll and exchange, and the portion of its interstate operations assignable to this state resulted in an average return of only .96 per cent on petitioner's average investment in telephone plant and working capital devoted to the rendition of these services for the years 1942, 1943, and 1944. Approximately this rate of return for the three years named is indicated in the studies made by the Commission's staff.

6. For the year 1945 the following gives the details of petitioner's total intrastate operations, toll and exchange, in the state of South Dakota showing its average investment in telephone plant and working capital, operating revenues, operating expenses, taxes, net income, and the resulting rate of return on its average investment in telephone plant and working capital.

1945
Total Intrastate Telephone Operations in South Dakota

Average Investment in Telephone Plant and Working Capital	$12,688,573
Operating Revenues	3,295,692
Operating Expenses	2,879,841
Taxes	290,296
Net Income	125,555
Rate of Return on Average Investment in Telephone Plant and Working Capital	.99%

7. In 1946 there were sharp increases in the level of petitioner's expenses. The greater portion of these increases in expenses resulted from wage increases of about 21 per cent granted to petitioner's employees in February, 1946, as a result of collective bargaining by petitioner with the union representing its employees and in line with the national policy and wage trends of the time. This wage increase was in addition to previous wage increases granted by petitioner in each of the years 1942 to 1945, inclusive. The 1946 wage increases were not fully effective in petitioner's

expense accounts until the beginning of the second quarter of 1946.

Petitioner's payroll expenses were further increased in 1946 over 1945 by an additional number of employees required to handle the increased business. The average number of employees for the months April through September, 1946, inclusive, located in South Dakota was 1,344 as compared with an average number of 1,115 for the year 1945, an increase of 229 employees or an increase in its employee force of about 20 per cent.

Analysis of petitioner's expense accounts shows that its payroll costs constitute approximately 67 per cent of its total operating expenses under present day conditions and are therefore the most important factor in its costs of doing business. In 1941, the year prior to the war, petitioner's payroll expenses to its total expenses was only 55 per cent showing the increased impact of payroll expense on petitioner's operations.

8. Since the increase in petitioner's wage levels above referred to were reflected in its expense accounts for the first time beginning with the second quarter 1946, the current level of its operations for comparative purposes can be determined only by taking petitioner's operating results for the months of April through September, 1946, and raising them to an annual basis. When this is done it is found that petitioner's current increase in total operating expenses on an annual basis including the increased wage level, the increased number of employees, and other expenses are $792,995 more than for 1945 while its current operating revenues on an annual basis increased over 1945 only $608,894.

As a consequence of the current increases in expenses over revenues petitioner's total intrastate telephone operations, toll and exchange, in South Dakota, on an annual basis, are resulting in an actual deficit of $58,546. The tabulation of petitioner's current intrastate telephone operations in South Dakota raised to an annual basis is shown below as follows:

Current Level of Operations—1946
(2nd and 3rd Qtrs. 1946 Raised to an Annual Basis)
Total Intrastate Telephone Operations in South Dakota

Average Investment in Telephone Plant and Working Capital ...	$13,209,132
Operating Revenues	3,904,586
Operating Expenses	3,704,309
Taxes	258,823
Net Income .... (Deficit)	58,546
Rate of Return on Average Investment in Telephone Plant and Working Capital (Deficit)	.44%

9. The large increase in demands for telephone service the past few years has resulted in petitioner being forced to use its facilities far beyond their designed capacity and this has impaired the flexibility of its service. Petitioner alleges it has been handicapped in providing additional telephone plant to meet this demand, first by the restrictions on construction by the government during the war and since the war by the present scarcity of available materials and supplies necessary for plant additions.

The Commission is aware that many subscribers are not able at present to secure from petitioner either the amount or type of service they desire. There has developed a considerable overcrowding of long-distance lines and switchboards which unduly delays and at times even prevents com-

pletion of calls. The present lack of facilities is delaying many rural customers from receiving rural service and is delaying the petitioner's metallicizing program for grounded rural lines. Many persons are now unable to obtain any telephone service whatsoever because petitioner at present does not yet have the plant facilities available to serve them.

Petitioner has informed this Commission that it is using every means at its disposal to make all plant additions possible with the materials and supplies available and that there is now considerable improvement in the quality of telephone service over what it was several months ago. Petitioner states and this Commission believes, however, that there is still much to be done in this regard.

[1, 2] 10. It is in the public's interest that this state be furnished reasonable, adequate, and efficient telephone service and it is the duty of this Commission to see that this is accomplished, having in mind the conditions existing at the time. This duty is reciprocal, and the petitioner as a public utility has the legal obligation within the limits of its financial ability to furnish the people of the state adequate, dependable, and efficient telephone service.

It therefore becomes the duty of both this Commission and the petitioner to see that steps are taken to remedy the present overcrowding of petitioner's telephone facilities so the public can obtain promptly the kind and amount of telephone service it desires and is entitled to. In order to accomplish this, it will be necessary for petitioner to make large additions to its present telephone plant to restore the normal margins in its facilities and equipment so it may be able to give the public the service it desires without undue delay.

11. Petitioner alleges that prices for the materials and supplies it must purchase to make these additions has increased as follows since 1939: Telephones, 15 per cent; switchboards, 43 per cent; cable, 50 per cent; motor equipment, 70 per cent; copper line wire, 75 per cent, and poles, 85 per cent. These advances in price are confirmed by the Commission's own studies and appear to be climbing.

Due to these increased prices of materials and supplies and increased labor costs over those prevailing when the present plant was built, it is clear that the required future plant additions will cost more per unit of plant added and replaced than for those of the present plant.

12. In order to make the necessary additions to its plant to provide adequate service to present subscribers and meet future demands, petitioner must invest additional capital in South Dakota for this purpose. Petitioner alleges that $1,650,000 will have to be spent for gross additions to its plant for the year 1946 based upon present views and that it will require as large or larger sums for construction in each of the next several years following.

13. The current level of petitioner's total intrastate operations, which is resulting in a sizable deficit under present rates and charges will, if permitted to continue, jeopardize petitioner's financial ability to maintain an adequate, efficient service for its present subscribers and will prevent it from meeting demands for additional

service and there is nothing in the foreseeable future to indicate that petitioner's financial situation will improve under the present schedule of rates and charges. It is this critical situation that has brought about the necessity for early relief.

14. Applying petitioner's current level of operations to the rate schedule proposed would result in the following:

Intrastate Operating Income Statement under Proposed Schedules of Rates and Charges
(April-September 1946, on an Annual Basis)

Average Investment in Telephone Plant and Working Capital ...	$13,209,132
Total Operating Revenues	4,410,586
Total Operating Expenses	3,711,899
Taxes	418,762
Net Income	279,925
Per Cent of Net Operating Income to Average Investment in Telephone Plant and Working Capital	2.12%

Even though the resultant rate of return be computed by deducting the entire depreciation reserve balance from petitioner's book costs of its telephone plant we find that the rate of return is only 3.21 per cent. While this is a low rate of return even when computed on this basis it will afford some relief against further financial impairment of petitioner.

Discussion of Evidence

[3, 4] As noted previously, petitioner's proposed schedule of rates and charges for its exchange services in South Dakota is developed under what is known as the statewide grouping basis of rate regulation. This method considers the entire exchange telephone property of an integrated telephone company in the state as one unit for the purposes of regulation regardless of the number or size of exchanges involved. The objective of this basis of rate regulation is to establish various levels of exchange rates for different groups of exchanges that will result in a balanced rate schedule for all exchanges and produce in the aggregate reasonable earnings on the company's total telephone operations within the state. The exchanges are classified into different groups, depending in general on the number of telephones per exchange. Because in the smaller exchanges the telephone service is relatively less valuable to the subscribers, due to the fact that fewer people can be reached without paying toll, and the practice to assign the lowest exchange rates to the group representing the smallest exchanges with reasonably increased differentials of exchange rate levels applied to each successive group representing the larger exchanges has become almost universal. From the standpoint of service, this practice is both just and reasonable.

The fact that telephone rates increase as the size of the exchange becomes larger, might be open to some question on account of the usual business experience that the cost per unit generally decreases as the quantity produced increases. From a practical standpoint, it is usually desirable to quote exchange charges on a per telephone basis although in most cases the telephone itself is not a true unit of service measurement. If a unit of service measurement is applied, such as a unit covering one message transmitted for one mile, the revenue requirement per unit of service actually decreases as the exchange grows larger. With the per telephone basis, the customer in the larger exchange actually receives more service per dollar when the

amount of service is measured in the amount of message miles talked. In a small exchange the base rate area of a town may extend only a mile or so in any direction while in the larger exchange the base rate area may cover 5 or 10 miles in any direction. In the larger exchange there are also a larger number of customers to be reached from the individual telephone which tends to increase the value of the service. As a telephone exchange grows larger the average length of the subscribers' loop increases and the equipment necessary for switching the calls becomes greater in amount and complexity. The number of subscribers also increases. There is a tendency for each customer to place more calls due to the fact that there are more persons available for conversation with the result that the average calling rate is greater in the larger exchange. This increase in the number of calls increases the cost of handling the calls and keeping the equipment in working order. As an exchange develops there is an inclination to spread out as is evidenced by the number of developments around each city consisting primarily of a few platted blocks in various directions. Some of these are frequently quite some distance from the saturated settlement of the town and the amount of plant required to reach the territory to be served is greater than the average when the exchange area was compact. A higher rate, both from the standpoint of services available and used and the cost of the service per station, is, therefore, justified.

As before stated and shown by this report the Northwestern Bell Telephone Company during the years 1942, 1943, and 1944 earned only .96 per cent on the undepreciated cost of its telephone plant, used and useful, in this state, notwithstanding the large volume of business transacted. For 1945 the net income on average investment in telephone plant and working capital was .99 per cent. The operating results for 1946 are available only for the first nine months, but this period is not representative for the entire year as the last wage increase is reflected only for the months of April through September. Projecting the result for these six months backwards for the first quarter and forward for the last quarter of 1946, it is found, as shown by table entitled, "Current Level of Operations—1946," that a substantial deficit is developing for the current year. The increases herein granted and which have been acquiesced in by the petitioner, without prejudice to the filing of a new petition for further increases should operating results under the schedule of rates herein and hereby promulgated prove inadequate, fall considerably below what our Supreme Court indicated was a fair and reasonable rate of return on capital invested, less depreciation, in Re Northwestern Bell Teleph. Co. (1942) — SD —, 46 PUR(NS) 293, 6 NW2d 165.

The Commission's staff has compiled data showing the rates for business and residence telephones in the states adjacent to South Dakota. These studies show that for a period of years the rates in such states for cities and towns of comparable size and for like statewide groupings of cities and towns, based upon the number of telephones in each, have in general been considerably higher than in

this state, and in some instances, as, for illustration, in Montana considerably higher than the rates provided for herein.

Since this is the first time petitioner has proposed that the establishment and regulation of its rates for telephone service in South Dakota be on the statewide grouping basis, we have given the proposed adoption of that method considerable thought and investigation.

Telephone service first started in the pioneer stage of this state's development when each community was more or less an isolated self-contained economic and social unit. This fact, together with the sparse development of toll lines between cities and towns, first led to a consideration of telephone service and rates on an individual exchange basis. As the economic growth of the state progressed its communities became more and more interdependent both for business and social purposes and telephone service has had an important part in this development. Today there is an increasing amount of social and commercial transactions by telephone communication between different communities because it is a speedy and economical method of handling these affairs.

We think it significant that the legislature recognized early in the state's development that adequate, efficient telephone service was not merely a matter of local interest for each community but was of statewide concern since it placed the supervision of telephone service, toll, and exchange, under the jurisdiction of a state Commission.

In order that the telephone service of the state be most serviceable to the public in the light of modern requirements and habits, it is necessary that there be adequate, efficient telephone development in all communities, large and small, and throughout the rural areas. Rates for telephone service should therefore be fixed and regulated so as to encourage the maximum development throughout the state both as to telephone exchanges and the long-distance lines interconnecting them.

The petitioner operates an integrated interconnected telephone system throughout the state of South Dakota and each of its 126 exchanges is an integral part thereof. From the standpoint of the petitioner, it is necessary that rates be sufficient in the aggregate to cover the over-all statewide cost of the service, including return on investment, and from the standpoint of the public it is necessary that the rates be no more than the service is reasonably worth.

The foregoing considerations would appear to make it desirable in the public interest to establish a statewide system of telephone rates and charges based upon proper exchange groupings classified with reference to services available to each subscriber. State Commissions that have had occasion to study the respective merits of fixing rates by exchanges or on a statewide basis have quite generally adopted the latter method. It is vastly simpler, less time consuming and expensive, fairer, and in the end costs the subscriber less on the average. The reasoning upon which these decisions rest is perhaps as well stated by the Oregon Public Service Commission in Re Pacific Teleph. & Teleg. Co. reported ni PUR1922C 248, 272, as in any other case that has come to the

Commission's attention. The Oregon Commission said:

"While other petitioners claim that Oregon is merely an outlying part of a national system, and, being in a backward state of civilization, should not be expected to pay its way, Astoria goes to the opposite extreme and contends that its own rates should be fixed on a strictly local basis.

"It has always been the position of the Commission that in telephone rates, the state should be treated as a unit. The various communities of the state are much more closely knit together by common interests than are the states of the union. The value to all telephone users of extension of service to many small communities, where the local expenses are necessarily greater than the local earnings, is so great that it is just and right that the state system be considered as a whole, such rates being fixed as will meet the entire cost, and the charges so distributed that uniform rates will prevail in exchanges of approximately the same size and development. This principle is approved and recommended to the state Commissions by the National Association of Railway and Utilities Commissioners in a report which we quote in part:

"'It is interesting to note the method pursued by the Colorado Commission in establishing telephone rates, based upon the theory that statewide service must be furnished and rates established which should enable reasonably good service to be furnished to all parts of the state, which, of necessity, involved the fixing of rates in large cities on a basis sufficient to cover cost of operation, depreciation and reasonable return, and at the same time encourage the development and use of the telephone in rural districts.'"

In dealing with this question the Montana Public Service Commission said:

"In Re Rates for Telephone Service in Havre (1922) Informal Docket No. 1548, 15 MUR 503, 504: 'It is impossible to isolate any particular telephone exchange, and on the basis of such local segregation, prescribe reasonable rates for the service rendered. In order to avoid discrimination in the prescription of reasonable telephone rates, some standard theory must be adopted in the treatment of the problem, and to date this Commission, in conformity with the decision of the Interstate Commerce Commission and of the leading Public Service Commissions of the country who have had occasion to make a diligent study of the problem, has determined that the statewide basis of making telephone rates is the only feasible and sensible basis to proceed upon.'"

Statewide fixation of rates has also been approved in a long series of court opinions, but a review of them here would extend this report unduly.

The existing rate structure of the petitioner, based as it is upon 126 separate exchanges in this state, contains many disparities in rates for comparable service as between similar communities. After a study of various rate combinations as developed in exhibit form by its engineer, and upon the record, files, and data before it, the Commission concludes and finds that the schedule of rates and charges set out in Exhibit A and containing 13 sheets, hereto attached and made a part hereof, based upon a statewide

grouping method whereby cities and towns having similar service characteristics are placed in the same service and rate category, are fair, just, reasonable, and nondiscriminatory for all exchanges in this state, and should for that reason be and become effective for the future as set forth in the accompanying *Order*. The Commission further concludes and finds that such rates and charges represent the minimum necessary and indispensable to the maintenance of an adequate telephone service for the people of this state.

EXHIBIT A

PROPOSED RATE SCHEDULE
SOUTH DAKOTA

Exchange Classifications According to Total Main Stations, Including Rural and Service Stations

Group	Total Main Sta.*	Business 1 pty.	Business 2 pty.	Residence 1 pty.	Residence 2 pty.	Residence 4 pty.	Rural Grd.	Rural Met.
A	0– 200	3.75	3.25	2.25	2.00	—	1.50	2.00
B	201– 500	4.25	3.50	2.50	2.25	2.00	1.50	2.00
C	501– 1,000	4.75	4.00	2.75	2.50	2.25	1.50	2.00
D	1,001– 2,000	5.25	4.50	3.00	2.75	2.50	1.50	2.00
E	2,001– 5,000	5.75	5.00	3.00	2.75	2.50	1.50	2.00
F	5,001–10,000	6.25	5.50	3.25	2.75	2.50	1.50	2.00
G	10,001–20,000	6.75	6.00	3.25	2.75	2.50	1.50	2.00

*As of 10–1–46.

Note 1.

Where exchanges have a common service area with one or more other exchanges, whereby subscribers in each exchange may call the other exchange or exchanges without the payment of a toll charge or an optional higher "extended service" monthly rate, such exchanges should ordinarily be classified in the rate group as determined by the total number of main stations of all exchanges in such a common service area.

Where the exchanges are of a comparable size in the total number of main stations, both exchanges are placed in the next higher rate group above the basic group into which the smaller exchange would be placed according to its total number of main stations.

Proposed exceptions to the above principles are listed herein, based on consideration of the present levels of rates, and the undesirability of further increases at this time than are being proposed herein. Where one exchange is over 50 per cent larger than the other, the smaller exchange only is placed in the next higher rate group.

Note 2.

All rates shown herein are net rates: the prompt payment discount plan is herewith to be eliminated.

Note 3.

Existing higher monthly differential charges for desk or hand set types of instruments are herewith to be eliminated.

Note 4.

Existing and effective rates not herein designated for revision shall remain unchanged.

[Lists of exchanges in each group omitted.]

EXHIBIT A

SERVICE CONNECTION CHARGES

1. *Main Stations*

Exchanges	Stations Not in Place Town Bus.	Res.	Rural	Stations in Place Town Bus.	Res.	Rural
Group I Sioux Falls	$5.00	4.00	3.00	$2.50	2.00	1.00
Group II Aberdeen Huron Mitchell Rapid City Watertown	$4.00	3.50	2.50	$2.00	1.75	1.00
Group III	$3.00	2.50	2.00*	$1.50	1.50	1.00

* Present S. C. C. applies to Canton and Hudson.

2. *Extension Stations*
Where station is not in place,
Business or Residence, Town $1.50
Rural 1.00

3. Private Branch Exchange Stations, not in place 1.50

Toll Stations

	Rate Per Month
Private Toll Stations, including ¼ mile circuit	$2.00
Each additional ¼ mile of circuit	.75
Multi-Party Toll Station, Individual Line	3.75
Multi-Party Toll Station, Multiparty	2.75

TRANSIENT HOTEL CLASS B AND C PBX SYSTEMS

At Aberdeen, Huron, Madison, Mitchell, Pierre, and Watertown

*Message guaranty per station, per month .... 5 Messages
PBX Station rate where hotel owns wiring .... $.50 per mo.
Local Message Commissions
Option A (local messages 5¢ each)
Commission .... $.015 per message
Option B (local messages 10¢ each)
Commission .... .06 per message
Toll Message Commissions
15% not to exceed 10¢ on each message.

* This guaranty to be eliminated when dial office message registers are available for billing actual local messages.

Deadwood 6-party business rate and service offering to be canceled. There are no subscribers to this service.

Deadwood residence 6-party rate and service to be removed from service offering within the base rate area, where there are no present subscribers, and made available only outside the base rate area, plus mileage charges applicable to 4-party service.

Special multiparty line service rates to certain rural communities outside base rate areas now offered in certain local exchange tariffs are to be continued without change except that the minimum rate for metallic residence service will be $2 and for metallic business service $2.50.

MOVE AND CHANGE CHARGES

1. Move of telephone main station

	Bus.	Res.	Rur.
Sioux Falls	$2.50	$2.00	$1.00
Aberdeen, Huron, Mitchell, Rapid City and Watertown	2.00	1.75	1.00
All other exchanges	1.50	1.50	1.00
Move of an extension or private branch exchange Station, Business and Residence (town)			1.50
Rural			1.00

2. Change in type or style of telephone set, each set 1.00

Service in Special Rate Area bordering Lake Kampeska—Watertown, S. D.

	Business	Residence
Four-party service		
First month	$13.50	$8.25
Subsequent months	4.50	2.75
Eight-party service		
First month	$8.50	$5.00
Subsequent months	2.50	2.00

Service in Special Rate Area bordering Lake Mitchell—Mitchell, S. D.

Business	Monthly	6 Months Seasonal
Individual Line Continuous	$6.75	
Four-party Line Continuous	5.25	
Four-Party		$30.00

Residence	Monthly	6 Months Seasonal
Individual Line Continuous	$3.50	
Four-party Line Continuous	3.00	
Four-Party		$25.00

SEMI-PUBLIC TELEPHONE SERVICE

Semi-Public Telephone Service guarantee for local messages originated at the Semi-Public Telephone

Where the flat rate for Business Individual Line Service is:	The daily Average Guarantee is:
$3.50	$.10
3.75	.11
4.00	.12
4.25 or 4.50	.13
4.75	.14
5.00	.15
5.25	.16
5.50 or 5.75	.17
6.00	.18
6.25	.19
6.50 or 6.75	.20
7.00 or 7.25	.21

Rural Grounded Service

All rural grounded service at rates above $1.50 will remain unchanged, in view of future metallicizing plans.

Cancellation of General Exchange Tariff "A"

The General Exchange Tariff "A", which is at present effective in certain exchanges, is to be canceled in its entirety, and the General Exchange Tariff will apply in all exchanges, with rates adjusted as outlined herein.

Section 21, Wiring Plans, of the General Exchange Tariff is canceled and Key Telephone System Rates, as outlined herein, will apply.

Enlarged Sioux Falls Base Rate Area

Attached Exhibit A Sheet 8 is a proposed Second Revised Base Rate Area tariff map for the Sioux Falls exchange, which expands the present base rate area, to become effective on the same billing date as the Sioux Falls main station rates will be increased. [Map omitted.]

SOUTH DAKOTA

Proposed Rates for Supplemental Services

Service Item	Rate Per Month
Regular Additional Directory Listing	$.30
Alternate Directory Listing	.30
Business Extension Stations:	
Exchanges having individual line business rate of $5.00 or more	1.50
Exchanges having individual line business rate of less than $5.00	1.25
Residence Extension Stations	1.00
Inward Private Branch Exchange Trunks	Bus. Ind. Line Rate
Inward Lines Associated with Business Individual Line Service	75% of the Bus. Ind. Line Rate computed to nearest multiple of 25 cents.
Note: If the computed rate is 12½ cents more than such multiple, the next higher multiple is used.	
Joint User Service:	
Where the individual line business rate per month is $6.00 or more	$2.50
more than $4.00 but less than $6.00	2.00
$4.00 or less	1.25
Extra Exchange Line Mileage Charges:	
Individual line or PBX trunk line per airline eighth mile or fraction, per month	.35
Two-party line, per eighth airline mile or fraction, per month, each main station	.25
Four-party line, per eighth airline mile or fraction, per month, each main station	.20
Extension Station Mileage:	
Extension station located more than 150 feet from building housing main station, per airline quarter mile or fraction	.75
Extension station located not more than 150 feet from building housing main station	.30
PBX Station Mileage:	
PBX station located more than 150 feet from the building housing the switchboard, per airline quarter mile or fraction thereof	.75
PBX station located not more than 150 feet from the building housing the switchboard	.30
Separate Signal Control Equipment	1.00
Commercial Power Operated:	
Outdoor electric horn	.60
" ten-inch bell	1.00
Indoor electric horn	.35
" ten-inch bell	.60
" six-inch bell	.35
" four-inch bell	.30
" musical tone signal	.35
Low voltage operated, indoor	
Buzzer	.20
Three-inch bell	.20
Six-inch bell	.35
Lamp Unit, Beehive Type:	
One Lamp	.25
Two Lamp	.35
Three Lamp	.50
Lamp Unit, Non-Flush:	
Three Lamp	.50
Four Lamp	.60
Lamp Unit, Flush:	
Three Lamp	.50

Commercial Power Signals with Self Contained Signal Control Equipment:	
Outdoor 10-inch bell	2.50
" electric horn	2.50
Indoor ten-inch bell	1.40
" electric horn	1.40
" Xylophone bar signals, 980, 490 or 245 cycle	1.80
Extension Bell	.30
Extension Gong	.30
Line Lamp Indicator, per appearance	.35
Busy Test Subscribers' Sets	1.00
Explosive Atmosphere Equipment:	
Telephones, in addition to regular station rate	5.00
Signal control equipment	2.00
8- or 10-inch bells indoor	2.00
8- or 10-inch bells outdoor	2.75
Handsets	No Add'n Chg.
Impaired Hearing Sets	$1.50
Equipped with close talking transmitter, in addition to charge for impaired hearing set	1.25
Equipped with distant talking transmitter, in addition to charge for impaired hearing set	1.50
Loud Speaker Sets	
Small size	3.00
Large size	7.25
Operators' Sets	.60
Operators' set furnished in lieu of standard set, in addition to rate for set replaced:	
Operators' set	.60
Key equipment with holding feature	.80
Key equipment without holding	.60
Patching Cord	.30
Protective connection equipment for telephoto service	1.25
Auxiliary receiver	.20
Single Headband Receiver	.20
Double Headband Receiver	.40
Receiver Transfer Key	.20
Listening-in Key with Cutoff Feature	.50
Listening-in Key without Cutoff Feature	.30
Telephones in Waterproof Cabinets, in addition to regular rate for class of service furnished	1.25
Transmitter Cutout Switches	
Hand type	.30
Foot type	.60
Voice Silencer	.30
PBX Switching Apparatus	
Class A, Including Operators' Set, total lines (tie, trunk and station) in use: 10 or less	5.00
11–17	7.00
Class B, Number of lines in use (total trunk, tie and station)	
10 or less	6.00
11– 30	7.25
31– 60	8.50
61–100	9.75
101–150	11.00
151–200	12.25
201–260	13.50
261–320	15.50
Class C, Per Position	35.00
Additional multiple jacks, per strip of 10	None
Class E—Mechanical Apparatus	
Cord Systems	
Selectors	3.00
Connectors	3.00
Selector Connectors	3.00
Dial Station Terminals	.50
Tie Line Terminals	3.50
Common Equipment	None
Cordless Systems	
Selector Connectors	3.00
Trunk Equipments	3.00

Key Station Systems		
Station Lines	Trunks	
8 or less	1 or 2	$20.00
9–15	3 or less	25.00
16–20	4 or less	30.00

Tieline Terminals	
Either to select or be selected	2.50
Both to select or be selected	3.50
Manual Switching Equipment per Position	
Cord Systems, non-multiple	25.00
multiple	35.00
Cordless Systems, 10 trunk capacity	9.00
4 trunk capacity	12.00
Trunks	1¼ times ind.
2 Way	Line bus. rate computed to nearest mult. of 25¢
PBX Stations	
Class A, B and C (Except Sioux Falls)	*1.50
Class E, Cord and Cordless	1.50
Key Station Systems	
Key Stations	2.00
Keyless Stations	1.50
Control Cabinet	1.75
Line Pickup	.60
Signal Control Equipment for Line Pickup	.30
Station and Trunk Line Indicators	
One lamp, beehive type	.30
Two lamps, beehive type	.50
Three lamps, nonflush	.60
Three lamps, flush type	.60
Three lamps, beehive type	.75
Four lamps, nonflush	.75
Three lamps, nonflush where equipment permits	.30
Battery and Power	
Class E, Cord Systems	40.00
Cordless Systems	25.00
Special night, Sunday and holiday service numbers, each	1.00
Tielines	3.00
If more than one building is involved, mileage charges apply between buildings, per ¼ airline mile or fraction thereof	.75
Stations in sleeping and patients rooms of clubs and hospitals—	
Class B and C PBX systems	.75

Stations in Transient Hotels—	
Class B and C PBX systems	.60
Conference Equipment	
Manual cord switchboard systems	
Four-jack	4.25
Five-jack	4.75
Additional appearance in the multiple	.60
Dial Systems, Cord and Cordless	
Five station equipment	3.75
Ten station equipment	6.00
Wiring Plans	Withdrawn
Key Type Station Equipments	
Switching Equipment and Power Plant	
One-line capacity	$8.50
Two-line capacity	11.00
Stations	
Key Station, in addition to regular station rate	1.50

Multiple Line Equipment Key Boxes	Installation or Move Charge	
Three-line single sided ..	3.00	2.00
Three-line double sided ..	3.00	2.50
Six-line single sided	5.00	2.75
Six-line double sided	5.00	3.25
Line Equipment, per line		1.50

Key Telephone Systems	
Pickup, per telephone, per line	.25
Holding, per line equipped	.35
Holding, per telephone equipped	.30
Intercommunication, per intercommunicating line	.90
One-way or two-way automatic signalling unit in addition to charge for audible signal	.35
Cutoff, Manual and Automatic Restoral of a Telephone, Bell or Listening Receiver, per telephone equipped	.20
Exclusion, manual operation	.20
Exclusion, automatic operation ...	.90
Signalling	
Control unit for auxiliary signals, per line	.90
Control unit for busy lamps, per line	.75
Local Signalling	
Push Buttons	.20
Buzzers and bells	.20
Unit of four pushbuttons	.40
Code and selective signaling unit ...	.50
Telephones having access to intercommunicating lines only	
Business	1.25
Residence	1.00

* Sioux Falls, see Suppl. Local Tariff.

IOWA STATE COMMERCE COMMISSION

Re Joseph McEniry, Doing Business As Two Siouxs Bus Line

Docket No. H-3635
December 9, 1946

APPLICATION *for certificate of convenience to operate as motor carrier of passengers and a limited amount of freight; granted.*

Certificates of convenience and necessity, § 107 — Motor carrier service — Effect of interstate authorization.

The fact that the Interstate Commerce Commission has granted authority to a motor carrier to operate interstate and that an adjoining state has granted authority to operate intrastate, while not controlling, is pertinent to the matter of granting a certificate for operation over a highway within the state for intrastate service along the same route.

APPEARANCES: Stephen Robinson, Attorney at law, Des Moines, and Joseph McEniry, Owner, Sioux Falls, South Dakota, for the applicant; Mc-

Laughlin, Hise, Davis and Hyde, Attorneys at law, Des Moines, by Frank W. Davis, for the Interstate Transit Lines, objector; McLaughlin, Hise, Davis and Hyde, Attorneys at law, Des Moines, by Frank W. Davis, and A. M. Shirley, Assistant to the General Traffic Manager, Minneapolis, Minnesota, for the Northland-Greyhound Lines, objector; Shull & Marshall, Attorneys at law, Sioux City, Iowa, by E. A. Hutchison, for the Charter Coach Company, objector.

By the COMMISSION: On September 22, 1945, Joseph McEniry, doing business as Two Siouxs Bus Line, Sioux Falls, South Dakota, filed an application for a certificate authorizing the operation of a motor carrier of passengers and a limited amount of freight between Sioux City and the Iowa-South Dakota state line near Inwood and intermediate points, James, Hinton, Wren, Merrill, LeMars, Struble, Maurice, Sioux Center, Perkins, Rock Valley, and Inwood, except no local service between Sioux City and the junction of U. S. Highways Nos. 18 and 75.

Pursuant to notice the matter was heard at Sioux City, Iowa, on January 17, 1946.

Written protests were previously filed by the Order of Railway Conductors and the Interstate Transit Lines. Appearing at the hearing in objection were Interstate Transit Lines, Northland-Greyhound Lines and Charter Coach Company.

The distance of the proposed route is about 76 miles. It is intended to operate three trips each way daily with three 25-passenger busses.

Both Charter Coach Company and Northland-Greyhound Lines operate in connection with their other lines, local service between Sioux City and most of the points to junction of U. S. Highways Nos. 18 and 75.

Thirty-six witnesses from the various communities appeared at the hearing in behalf of the applicant. Also filed was a petition signed by fourteen members of the Rock Valley Women's Club; a letter from a doctor from that place; and subsequent to hearing two letters from Merrill, all of which expressed a desire to have this service established.

While it is not controlling, but what we believe to be pertinent to the matter, is the fact that the Interstate Commerce Commission has granted authority to the applicant to operate interstate over this line and also the state of South Dakota has granted authority to operate intrastate in that state over a proposed line of the applicant, Inwood, Iowa, to Sioux Falls, South Dakota.

We have carefully reviewed the record and all the matters, facts and things here and find the applicant fit and able financially and otherwise to engage in the undertaking; and that the service as proposed will promote the public convenience and necessity.

It is, therefore, *ordered* that a certificate in accordance with the findings herein be issued.

WISCONSIN PUBLIC SERVICE COMMISSION

Re City of Stoughton

2-U-2193
October 30, 1946

APPLICATION *by municipal water plant for authority to increase water softening rates; proposed rates disallowed and new rates prescribed.*

Return, § 100 — Municipal water plant — Water softening service.
Proposed rates for municipal plant water softening service were disallowed where they would yield a return of 27.7 per cent, but rates yielding a return of more than 5 per cent were authorized.

Public utilities, § 64 — Status of water softening service.
Statement, in dissenting opinion, that the mere fact that water softening service happens to be furnished by a public water utility does not convert it from a private merchandising enterprise into a public utility service, and that, therefore, an application by a municipal water plant for authority to increase water softening rates should be dismissed for want of jurisdiction, p. 157.

(BRYAN, Commissioner, dissents.)

By the COMMISSION: The city of Stoughton, Dane county, as a water public utility, on June 18, 1946, filed an application with the Commission for authority to increase its minimum quarterly charge for water softening service to urban customers from \$3 to \$6 and for suburban customers from \$3.75 to \$7.50 (including three regenerations) and to increase the charge for each additional regeneration during a quarter from 50 cents to \$1 for urban customers and from 62.5 cents to \$1.25 for suburban customers. The Federal Office of Price Administration was served with a notice of the application and of applicant's consent to the timely intervention of such agency in this proceeding. A notice of investigation and hearing was issued on June 24th.

APPEARANCES: C. A. Dahle, Superintendent, Stoughton Water and Light Department, for applicant; W. H. Evans, rates and research department, of the Commission staff.

The applicant renders individual water softening service to 135 urban customers, all of whom reside within the city limits. Of these customers, 11 regularly receive extra regenerations, while a few other customers occasionally require additional regenerations. The service is provided through the substitution monthly or oftener at the customer's premises of a regenerated softening unit for the

softening equipment in service there. The applicant in Docket 2–U–1998, 56 PUR(NS) 191, was denied authority two years ago to discontinue water softening service. The order denying such authority pointed out that the Stoughton water department had not exhausted other remedies. The record in that proceeding was made a part of the record in this proceeding.

The present application was filed because costs of furnishing the water-softening service considerably exceed the revenues derived from 135 customers who get the service.

An analysis of the evidence indicates that under the proposed rates gross revenues for the water softening service based on 1945 experience would be $3,294; and that operating expenses would total $2,147, including $1,134 for labor, $419 for depreciation, and $91 for tax equivalents. Income available for return would be $1,147, or a return of 27.7 per cent on a rate base as of December 31, 1945, of $4,147.

The proposed rates will not be allowed because they would result in an excessive return. The rates herein authorized should produce annual revenues of approximately $2,482. No rent expense is included in the estimated expenses, but if included would leave net income sufficient to provide a return of more than 5 per cent.

The Commission finds:

That the present rates of the city of Stoughton, as a water public utility, for water softening service are inadequate and that the rates herein authorized are reasonable.

Bryan, Commissioner, dissenting: It is of course within the scope of duty of a public water utility to furnish water suitable for domestic use. If the untreated water is wholly unsuitable, the utility may properly install central softening equipment so that the product sold as a public water utility will be soft water. When, however, the untreated water is usable and the requirements of reasonably adequate service do not make water softening obligatory, the duty of the water public utility ends at the meter.

In the case here under consideration the water softening service is provided to a few customers by attachments on the consumers' side of the meters. The attachment is completely under the control of the consumer. The consumer may install such an attachment and maintain it himself if he so desires without consulting the water utility. He may also employ either the service of a private water softening agency or that of the water public utility. Any individual or company may freely engage in the business of furnishing such water softening devices or service without securing a franchise as a public utility.

The mere fact that this essentially private merchandising service happens to be furnished by a public water utility does not convert it from a private merchandising enterprise into a public utility service. If it is a private enterprise when performed by a non-utility entity, it is still a private enterprise when performed by a public utility. That a public utility may engage in such private merchandising enterprises was recognized by the legislature in enacting § 196.59, Statutes, which provides for separate

profit and loss accounting for such private enterprises and that, "No such profit or loss shall be taken into consideration by the Public Service Commission in arriving at any rate to be charged for service by any such public utility." While § 196.59, Statutes, does not specifically apply to water public utilities, the Commission has required such utilities, by general order, to keep their accounts of merchandising enterprises in the same manner as prescribed for the merchandising activities of electric and gas utilities. (Docket 2–U–1138, November 5, 1937.)

In Docket 2–U–1998, application of the city of Stoughton, the Commission, on November 28, 1944, 56 PUR (NS) 191, formally held that this type of water softening service is that of a public utility and refused to authorize its abandonment. That decision was, in my opinion, ill considered and erroneous and should now be corrected.

I favor the dismissal of the proceeding for want of jurisdiction.

WISCONSIN PUBLIC SERVICE COMMISSION

Re Restriction of Use of Gas for Conserving Coal

2–U–2281
November 23, 1946

INVESTIGATION *on Commission motion to restrict use of gas for purpose of conserving coal; rationing in compliance with Civilian Production Administration Order U–13 ordered.*

Service, § 146 — Gas — Curtailment during coal shortage.

Gas companies were ordered to handle the rationing of gas during a coal shortage in compliance with Order U–13 of the Civilian Production Administration which would become effective when a gas company has less than three weeks' supply of coal.

Service, § 146 — Gas — Curtailment during coal shortage.

Order U–13 of the Civilian Production Administration governing gas rationing during coal shortage, p. 159.

By the COMMISSION:

Whereas:

A. It appears that an imminent shortage of coal may develop for use in producing gas;

B. The situation is not peculiar to Wisconsin;

C. The Civilian Production Administration has issued curtailment order (U–13) directing gas utilities to restrict the use of gas;

D. This Commission has power under §§ 196.02(1), 196.28, and 196.-395, Wisconsin Statutes, to deal with emergencies affecting utility services and in accordance with § 195.07, Wisconsin Statutes, can call upon the attorney general and the district attorneys to enforce all laws relating to railroad or public utilities;

E. During the war period the utilities demonstrated their ability to comply and obtain compliance with regulations governing the use of gas;

F. It is desirable to supply gas in the most equitable manner possible.

Now, therefore:

The Public Service Commission of Wisconsin is charging all utilities furnishing gas service, whether they purchase or produce gas, with the responsibility of administering the rationing of gas.

The Public Service Commission of Wisconsin is also charging all gas utilities with the responsibility of reëstablishing service as conditions improve.

Utilities shall in administering such rationing comply in all respects with the Civilian Production Administration Order U–13, which order is to become effective when a gas utility has less than three weeks' supply of coal. A copy of Order U–13 is appended hereto.

Jurisdiction is retained.

Civilian Production Administration

Order U–13

Manufactured-Mixed Gas Utilities

(Effective when gas utilities have less than three weeks' supply of coal.)

1. First, the utility shall, within the limits of its contractual rights, reduce deliveries to all consumers purchasing manufactured or mixed gas under contracts permitting the supplier to interrupt deliveries: provided, that such deliveries of gas necessary for the maintenance of the essential services listed in Schedule I to this order shall be reduced or discontinued only to the extent that the fuel requirements for such production and services can be supplied from the consumer's standby facilities.

2. Second, the utility, without regard to its contractual rights or those of any consumer, shall reduce deliveries to all consumers who have standby facilities, to the extent to which the operation of such facilities can reduce the consumers' requirements for the delivery of manufactured gas. Such reduction shall be made, in so far as practicable, on a uniform proportionate basis. All such consumers shall so far as practicable maximize their use of standby facilities and to a corresponding extent reduce their acceptance of manufactured gas from utilities.

3. Third, the utility shall reduce deliveries to all commercial and industrial consumers, except to the extent that such deliveries are necessary for the maintenance of the essential services listed in Schedule I or to prevent permanent damage to the production facilities of such consumers. Such re-

ductions shall be made in so far as practicable, on a uniform proportionate basis.

4. Fourth, the utility shall reduce deliveries to the essential services listed in Schedule I except hospitals and power, gas, communications, water, sewage, and sanitation systems. Such reductions shall be made on a uniform proportionate basis in so far as practicable.

5. Finally, after effectuating the reductions in deliveries required in foregoing provisions, the utility shall reduce deliveries to all remaining consumers to the extent and in the manner it deems necessary and practicable.

Schedule I

1. Fire and police stations, hospitals, and prisons.

2. Public eating establishments (whose principal business is the serving of food including industrial plant and store cafeterias, but not including private dining rooms, night clubs, taverns, etc.)

3. Bakeries (to the extent necessary for the manufacture of bread products only).

4. Dairies (to the minimum extent necessary to prevent loss of perishable products).

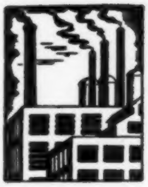
5. Meat, poultry, fish, and perishable food packing, raising and warehousing establishments (to the minimum extent necessary to prevent loss of perishable products of material in process).

6. Power, gas, communications, water, sewage, and sanitation systems.

7. Public transportation systems including repair yards and shops engaged in the maintenance or repair of public transportation equipment.

8. Facilities used for the preservation of perishable food, biologicals and pharmaceuticals.

9. Newspaper production facilities.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.

$34,000,000 Program Proposed During 1947

CONSTRUCTION budgets for 1947, totaling more than $34,000,000, have been authorized by the subsidiary operating companies of Public Service Corporation of New Jersey for new equipment, extensions, and replacements, President George H. Blake announced recently. This is in addition to $23,000,000 previously appropriated for the new Sewaren electric generating station and also is in addition to $6,000,000 appropriated earlier in 1946 for gas works equipment and distribution mains, and $4,900,000 for the purchase of 417 new buses.

Of the total amount in the 1947 construction budgets, approximately $23,900,000 is for the electric department and $7,900,000 for the gas department of Public Service Electric and Gas Company; $1,700,000 for Public Service Coördinated Transport and Public Service Interstate Transportation Company; and $800,000 for Atlantic City Gas Company, Peoples Gas Company, and County Gas Company.

The major appropriation in the electric department's budget is for the installation of a third 100,000 kilowatt turbine-generator, boiler, and other facilities at the company's new Sewaren generating station to meet anticipated peak loads. The total construction cost of the Sewaren station is estimated at $38,000,000.

Other 1947 construction budget appropriations for the electric and gas departments are for the further improvement, respectively, of facilities for the generation and distribution of electricity and the manufacture and distribution of gas to continue not only to meet present requirements but also to take care of anticipated growth.

Two Executives Elevated by Ford, Bacon & Davis

FORD, BACON & DAVIS, INC., engineers, with offices in New York, Philadelphia, Chicago, and Los Angeles, have announced the election of Everett S. Coldwell as executive vice president and of David A. Uebelacker as vice president and director in general charge of new business activities.

IBM Promotions

INTERNATIONAL BUSINESS MACHINES CORPORATION announced recently the promotion of David C. Moore to the position of sales manager of the International Time Recording division of the company. He was previously manager of the ITR division in the New York sales office, and is succeeded in that position by Robert R. Chase, who previously held a similar position in the Buffalo office.

1947 Construction Program To Cost $20,715,300

THE CONNECTICUT LIGHT AND POWER COMPANY announced recently that its extensive 1947 improvement and expansion program, now under way, will cost $20,715,300. It is expected that $13,500,000 of that amount will be expended this year and the balance of $7,215,300 in 1948.

Work scheduled under the construction plan includes completion of the installation of a new 45,000 kw turbogenerator at the company's Devon plant and installation of two new 31,000 kw turbogenerators at its Montville plant. Greatly increased demands for electric power and gas will also be met through the enlargement of electric transmission facilities and substation equipment, and through expanded gas manufacturing and distribution equipment.

U. S. Rubber Producing New Work Glove

UNITED STATES RUBBER COMPANY has started production of a rubber-coated canvas work glove that is said to offer better protection to the hands and to have superior wearing qualities. It is expected to have many industrial and household uses.

The product was developed in the Providence, Rhode Island, plant of United States Rubber Company. It is made by dipping the canvas in liquid rubber up to the wrist and then vulcanizing. The result is a tough, waterproof glove which is said to outlast many pairs of ordinary canvas gloves.

John Devereaux Named Vice President of Deena Products

JOHN W. DEVEREAUX has been elected vice president of Deena Products Company, 825 South Wabash Avenue, Chicago, Illinois, it has been announced by George H. Weiner, president. Mr. Devereaux will take charge of the company's public utility business and develop samples of certified lamps that will tie in with the Program of Certified Lamp Makers when effective.

For many years prior to the war, Mr. Devereaux was a member of the Public Utility Engineering and Management Corporation.

One of his more important contributions to the public utility industry was the development and operation of an appliance merchandising organization on subsidiary properties of the Standard Gas & Electric Company. He later became lighting sales director of the company.

For the past five years, Mr. Devereaux has been located in Washington; first, with the War Production Board and, for the past two years, as head of the portable lamp and shade unit of the Office of Price Administration.

Michigan Consol. Gas to Spend $12,000,000 for Expansion

MORE than $12,000,000 will be spent by the Michigan Consolidated Gas Company this year to improve its facilities, Henry Fink, the company's president, announced recently.

The amount is almost double that spent in 1946 by the company for new construction.

Included in the expansion program are additions to gas production facilities, estimated to cost $2,000,000; new mains, services, and expansion in the Detroit area, to cost $8,000,000; and $2,000,000 for new work in Grand Rapids, Muskegon, Ludington, Mt. Pleasant, Greenville-Belding, and the Big Rapids areas.

Sorensen & Co. Appoints Chief Engineer

LEO L. HELTERLINE, JR., has been appointed chief engineer for Sorensen & Company, Inc., according to an announcement by Helen S. Sorensen, president.

In his new capacity, Mr. Helterline will be responsible for the design and development of all Sorensen products which include voltage regulators, transformers, Nobatrons, and special electronic equipment. He has been with Sorensen since January, 1946, as senior project engineer.

Electromaster Moves to New Plant

ELECTROMASTER INC., manufacturers of electric ranges and water heaters, has moved its entire operations from Detroit into the firm's new three quarter million dollar plant in Mount Clemens, according to an announcement by R. B. Marshall, president.

Castle Films Issues Catalog

A NEW catalog has been published by Castle Films, authorized distributor of U. S. government visual aids, listing many new films released during the past year for school and industrial training purposes. There are now available 730 sound motion pictures on 16 mm film and 585 filmstrips for 35 mm slidefilm projectors to aid in teaching a great variety of skills, with many films dealing with engineering and scientific subjects.

The catalogued collection of visual aids was produced by the U. S. Department of Agriculture, U. S. Office of Education, U. S. Navy and War Departments, U. S. Public Health Service, Civil Aeronautics Administration, and Veterans Administration.

Castle Films offers the catalog free to all schools and industrial plants equipped to use visual aids. Address Castle Films Division of United World Films, Inc., at 30 Rockefeller Plaza, New York 20, New York.

$15,000,000 Program Planned By Gulf States Utilities

TOTAL capital expenditures exclusively for production and special large transmission facilities in the Gulf States Utilities Company's system over the next three-year period may approximate $15,000,000 according, to President Roy Nelson.

Work is already underway on the recently acquired Riverside power plant at Lake Charles, Louisiana, which will increase power plant capacity by 35,000 kilowatts.

In addition to the partly completed Riverside plant, Mr. Nelson said that an order had been placed for a 40,000 kw turbogenerator for the 85,000 kw Neches station. This unit is scheduled for delivery early in 1949, with construction at the plant to begin in 1948. The cost of the Neches station project is estimated to be approximately $4,500,000. This will increase the company's power plant capacity to 285,000 kw, or about 380,000 horsepower. Extensive transmission system additions and improvements will require the remainder of the $15,000,000 construction expenditure.

Hartford Electric to Spend $2,000,000 for New Unit

EXPANSION of the Hartford Electric Light Company's generating facilities by installation of a new mercury vapor unit at its south Meadow plant will be undertaken shortly, according to an announcement by President A. D. Barney.

The turbine will replace the present mercury unit erected in 1928 as the first commercial mercury turbine in the country. Approximately $2,000,000 will be expended on the program.

With the addition of the new unit, the station's total capacity will be 185,000 kilowatts of electric power.

Booklet Gives Maintenance Hints For General Purpose Turbines

PRACTICAL information necessary for the proper maintenance of general purpose turbines is contained in a new handbook announced by the Westinghouse Electric Corporation.

The booklet first describes the steam turbine, explains how it operates, and tells how it should be installed. Directions for piping, joint sealing, and lubricating, are given. Dismantling of the turbine for complete inspection once a year is recommended, and points to be checked and recorded are listed. Necessary repairs and adjustments are discussed under the heading of

the various parts—rotor, bearings, glands, governors, nozzles, overspeed trip, speed changer, reduction gears, and oil parts. The final chapter gives emergency hints for quick reference if the turbine is not operating properly.

Copies of the new booklet (B-3747) may be secured from the Westinghouse Electric Corporation, P. O. Box 868, Pittsburgh 30, Pennsylvania.

ASA Publishes Lists of Approved Standards

A LIST of 864 standards approved for national use of industry by the American Standards Association are available for general distribution, according to P. G. Agnew, vice president of the association.

The standards listed include definitions of technical terms, specifications for metals and other materials, methods of work, and methods of test for finished products. They reach into every important engineering field. They also include standards dealing with public and industrial safety, industrial medicine, and a wide variety of consumer goods.

This list represents the cumulative efforts of about 3,000 men, representing 660 organizations working on the development of standards.

Sets Up National Oroganization Of Home Economists

TO bring appliance "use-value" training to electric utilities, dealers' stores, and schools, Hotpoint Inc. has set up a national organization of home economists operating from Hotpoint Institute, Chicago.

Organization of the home service will follow the lines of the company's sales structure, with home economists at each of the company's regional offices. The field staff will be directed by Margaret Davidson, director, Hotpoint Institute, with the following regional directors: Josephine Parks, Atlanta; Elizabeth Lyman, Chicago; Alice Wood, New York city; and Geraldine Furst, San Francisco.

Melting and Dipping Equipment

TWO new groups of indirectly heated, fully insulated, thermostatically controlled melting tanks have been developed by Aeroil Products Company, West New York, New Jersey, for use in heating, melting, dipping, and pouring critical compounds such as wax; paraffin; oils; fats; pitch; hydroline; battery, transformer, resistor, and capacitor compounds.

These new tanks are built on the double boiler principle to insure complete uniformity of accurately controlled temperature on all four sides and bottom of the inner vat that contains the materials to be melted. Built-in thermostatic controls hold temperature rigidly at any desired point from 100° to 550° F. in fully insulated units that are cooled to the touch.

Both gas-fired and electrically heated equipment are available. Free illustrated leaflet No. 581 with complete details of specifications available upon request from manufacturer.

New Type Safety Belt

MANUFACTURE of a new type Strauss lineman's safety belt, incorporating the superior qualities of both web and leather construction, has been announced by the Portable Safety Division of Portable Products Corp., 494 Boulevard of the Allies, Pittsburgh, Pennsylvania. The new belt is made of Diamond Stripe web strap 1¾ in. wide by 5/32 in. thick, with a tensile strength of 4500 lbs. Inside this strap is fitted a 4 in. wide web body pad which in turn is lined with soft, pliable leather for great comfort and ease of movement.

All hardware including slip-proof buckle and Dee rings, is constructed from special drop-forge steel. Weight of the new belt, designated as No. 625 PP, is only 3 lbs. The manufacturer will be glad to furnish samples, prices and complete information upon request.

New Earth-boring Tool Offered By Hydrauger Corp.

A NEW horizontal earth-boring tool, light enough to be operated by one man, is announced by the Hydrauger Corporation, Ltd. of San Francisco.

Expressly developed for running in pipe leads, it is reported to be consistently straight-boring for underground distances up to 50 feet. Power is provided by a 3.2 horsepower motor operated by 90 pounds of air pressure.

The new development, Model LHH-2, joins a family of larger Hydraugers that have been used by utilities for years, particularly for installing pipe under pavement, landscape, buildings, etc.

The manufacturer offers further information to persons writing the company at 116 New Montgomery street, San Francisco.

M.S.A. Offers Snake Bite Kit

THE M.S.A. plastic snake bite kit, which provides rapid, dependable emergency snake bite treatment for utility, oil field, and construction workers, lumbermen, research parties, section gangs, etc., is a new product made by Mine Safety Appliances Company.

The M.S.A. snake bite kit is light in weight, small, and compact and can easily be carried in a vest pocket ready for instant use.

Equipped with a special self-suction pump, which can be operated with only one hand, the M.S.A. snake bite kit utilizes the accepted scientific method for removing the venom of snake bite. A special, easily-applied tourniquet is supplied to facilitate fast, effective one-man application. Also included in the M.S.A. snake bite kit are a hermetically-sealed iodine brush, an incising knife, a tapered suction pump adapter, adhesive compress dressings, and sealed ammonia inhalants.

For a copy of the new M.S.A. snake bite kit bulletin (No. FA-96), which describes in detail and illustrates the contents and applications of the kit, write to Mine Safety Appliances Company, Braddock, Thomas, and Meade streets, Pittsburgh 8, Pennsylvania.

American Coach & Body Makes New Sales Appointments

C. G. Wood, director of sales for The American Coach & Body Company, Cleveland, Ohio, announces the following sales appointments: Deming Bronson, sales manager, Central Division with headquarters at Cleveland, Ohio; Homer A. Feyen, sales manager, Midwestern Division with headquarters at Des Moines, Iowa; and William R. Hall, sales manager, Eastern Division with headquarters in New York city.

Honeywell Appoints Johnson Sales Chief of Gas Controls

Lynn H. Johnson has been appointed sales manager of the gas controls division of Minneapolis-Honeywell Regulator Company, according to an announcement by A. H. Lockrae, vice president.

In his new assignment, Mr. Johnson will serve under C. D. Lyford, vice president in charge of the gas controls division.

Hartford Gas to Enlarge Manufacturing Plant

The Hartford Gas Company is planning to spend $1,400,000 to enlarge its manufacturing plant, plus $600,000 for new business extensions and general improvements. The company said improvements should be completed by the end of 1947.

Motorola Appointment

Daniel E. Noble, general manager of the communications and electronics division of Motorola was appointed to the position of vice president in charge of that division effective February 1st, it was announced recently by Paul V. Galvin, president of the firm. Mr. Noble's appointment followed a meeting of the board of directors of the Galvin Manufacturing Corporation on January 31st.

Mr. Noble joined Motorola in 1940, when he became director of research. For the past six years he has been engaged in the development of frequency modulation communications equipment for mobile services and military applications. Since 1937 he has been identified with the application of FM to the mobile communications field. He developed the first FM mobile system for the Connecticut state police in 1938-1939.

A-C Appointment

Charles F. Codrington has been promoted from assistant to the manager to sales manager of the blower and compressor department of the Allis-Chalmers Manufacturing Company, Milwaukee, Wisconsin, succeeding A. E. Caudle, resigned, according to an announcement by M. C. Shaw, manager of the department.

Davey Compressor Bulletin

Publication of a bulletin descriptive of seven models of Davey heavy duty power take-offs is announced by the truck equipment division, Davey Compressor Co., Kent, Ohio.

The bulletin lists take-off operating principles, gives installation data and complete specifications.

Also described are various types of truck-mounted power equipment which can be driven advantageously through take-offs. This includes compressors, generators, gas well bailers, concrete mixers, fire-fighting equipment, welders, machine shops, pumps, street sprinklers, home insulation blowers, rock crushers.

$899,500 Program Proposed

Dallas Power & Light Company is making plans for expansions totaling $899,500 to meet growing demands for electricity in Dallas.

Expenditures will include $755,000 for a new transformer station near Haskell and Dolphin road in southeast Dallas, and $144,500 for a new 10,000-kilowatt transformer for the Greenville avenue station in east Dallas.

Construction Loans Announced

Construction loans—chiefly for distribution lines, system improvements or new or additional generating capacity—recently were made to the following enterprises by the Rural Electrification Administration:

Nolin Rural Electric Coöperative Corporation, Elizabethtown, Ky., $300,000.

Boone County Coöperative Electric Association, Columbia, Mo., $300,000.

Pickwick Electric Membership Corporation, Selmer, Tenn., $330,000.

Navarro County Electric Coöperative, Inc., Corsicana, Tex., $50,000.

San Patricio Electric Coöperative, Inc., Sinton, Tex., $250,000.

Lone Wolf Electric Coöperative, Inc., Colorado City, Tex., $100,000.

Virginia Electric Coöperative, Bowling Green, Va., $92,000.

Trico Electric Coöperative, Inc., of Marana, Ariz., $600,000.

Minnkota Power Coöperative, Grand Forks, N. D., $2,500,000.

Middle Georgia Electric Membership Corporation, Vienna, Ga., $975,000.

Lyon Rural Electric Coöperative, Rock Rapids, Iowa, $175,000.

Nodak Rural Electric Coöperative, Inc., Grand Forks, N. D., $800,000.

Licking Rural Electrification, Inc., Utica, Ohio, $210,000.

Cookson Hills Electric Coöperative, Inc., Stigler, Okla., $297,000.

Codington-Clark Electric Association, Inc., Watertown, S. D., $125,000.

Meriwether Lewis Electric Coöperative, Centerville, Tenn., $620,000.

Bandera Electric Coöperative, Inc., Bandera, Tex., $65,000.

Lamb County Electric Coöperative, Inc., of Littlefield, Tex., $175,000.

XUM

PROFESSIONAL DIRECTORY

• This Directory is reserved for engineers, accountants, rate experts, consultants, and others equipped to serve utilities in all matters relating to rate questions, appraisals, valuations, special reports, investigations, financing, design, and construction.

(*Professional Directory Continued on Next Page*)

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(Professional Directory Continued on Next Page)

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(*Professional Directory Concluded on Next Page*)

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